GLENMEDE

Investment Strategy Insights

June 21st, 2021

Seeking Direction on Portfolios & Policy

- Real Opportunities in Real Estate
  - Investors should consider an overweight to real estate, taking advantage of fair valuations and a favorable macro backdrop
- Thinking Ahead with the Fed
  - A measured and well-communicated deceleration of monetary accommodation should not be disruptive to markets
- A Bridge Forward on Infrastructure?
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Real Opportunities in Real Estate

- **Next in Line?** Many risk assets have rebounded substantially since last March's pandemic lows, though real estate investments have been a bit slower to recover. With valuations on U.S. large-cap stocks and U.S. small-cap stocks sitting at the 92nd and 83rd percentile, respectively, Glenmede estimates that global real estate sits at a much more reasonable 64th percentile, suggesting REITs* may be next in line in the post-pandemic recovery.

- **A More Diverse Opportunity Set.** When considering REITs, what immediately comes to mind for some investors are pools of assets dominated by holdings in office buildings and malls. That may have been the case a few years ago; for example, in 2007, office/retail spaces composed 43% of all REIT property holdings in the U.S. Since then, domestic REIT holdings have become much more diverse, particularly among "alternative" sectors such as towers, data centers, healthcare and other non-traditional properties.

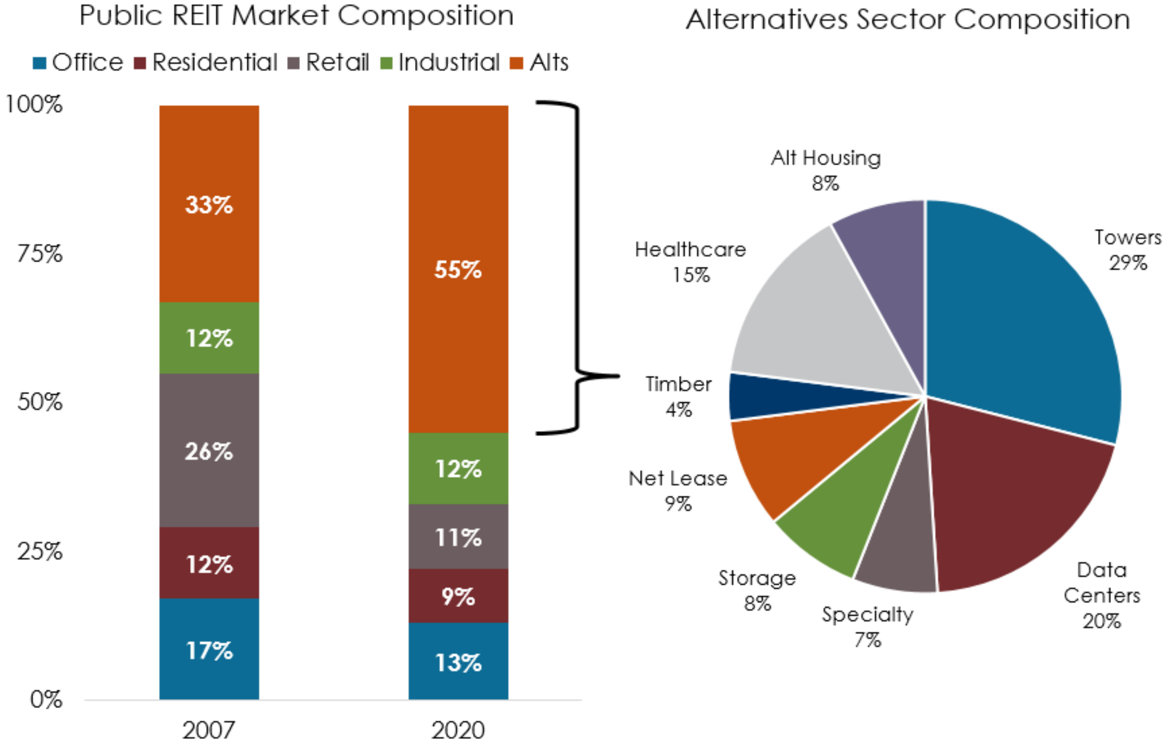
- **The Case for an Overweight.** Real estate investments stand to benefit from a number of macroeconomic crosscurrents. The economy is recovering, which should lead to higher occupancy rates. REITs have also historically been among the best performing assets during periods of 3-5% inflation, where price trends currently sit today. In addition, the real estate sector appears to be relatively insulated from a key portion of proposed corporate tax changes, which calls for doubling the rate applied to GILTI**. Plus, in a yield starved marketplace where bonds and cash continue to offer historically low yields, rents can offer an attractive chance to enhance portfolio income.

Investors should consider an overweight to real estate, taking advantage of fair valuations and a favorable macro backdrop

Real estate investment trusts
***Global intangible low-taxed income*

Chart of the Week:

REITs Offer Exposure to More Than Just Offices & Malls



Source: Glenmede, Bloomberg
Data shown in the bar chart is the composition of the FTSE NAREIT Equity REITs Index as of the end of 2007 and September 2020. Data shown in the pie chart is a breakdown of some of the specific sub-indices that make up the Alternatives (Alts) sector within the FTSE NAREIT Equity REITs Index. The FTSE NAREIT Equity REITs Index is a market capitalization weighted index of real estate investment trusts in the U.S. One cannot invest directly in an index.

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Thinking Ahead with the Fed

- **FOMC Recap.** Last week's Federal Open Market Committee (FOMC) meeting appears to have marked a pivot point for the Fed's messaging, as Chair Powell highlighted that internal discussions regarding the tapering of asset purchases had begun. In addition, the latest release of the FOMC's dot plot projections shows the median respondent expecting two rate hikes by the end of 2023. Overall, the Fed is not yet inclined to take away the monetary policy punch bowl, but it is clear discussions have begun as to the circumstances under which a change in course may be appropriate.

- **A Focus on Inflation.** After a string of hotter-than-expected inflation prints, the FOMC seems to remain committed to its thesis that inflation spikes will prove transitory. The median voter in the latest Summary of Economic Projections expects Core PCE inflation to tick up notably to 3.0% for the full year 2021, but settle back down to 2.1% for 2022. Given the uneven recovery pattern of the pandemic recovery, it should be expected that inflation may remain volatile in the short-run, but level off once supply constraints dissipate and the economy begins to return to its longer-term equilibrium.

- **Anticipating the Fed's Timeline.** Going forward, investors should expect the Fed to use the rest of 2021 to develop and clarify its forward guidance for both bond purchases and rate hikes. From there, the Fed will likely taper its bond purchases through 2022 and perhaps consider a gradual increase of the federal funds rate either in the back half of 2023 or early 2024. Such action is unlikely to be disruptive for markets, as long as growth and inflation continue to unfold as expected.

A measured and well-communicated deceleration of monetary accommodation should not be disruptive to markets

A Bridge Forward on Infrastructure?

- **Breaking Ground on Infrastructure.** Considered together, President Biden's American Jobs Plan & American Families Plan seek to add an additional $4 trillion in federal spending on infrastructure and social programs, paid for via higher corporate and capital gains taxes. That said, the administration has hinted that it may be open to compromise on a bipartisan infrastructure bill, with reports that a group 21 senators from both parties now supports a $1 trillion deal.

- **Deciphering a Roadmap.** It remains unclear what path infrastructure legislation might ultimately take through Congress. Some Democratic Senators prefer to pass a larger bill fully paid for with higher taxes through the reconciliation process, which would require only 50 votes to pass the Senate (with VP Harris's tiebreaking vote). However, that leaves little room for error; with Sen. Manchin continuing to signal he does not support using reconciliation, it takes just one defection to sink a party-line vote in the Senate. If Biden opts instead to go the bipartisan route, it would likely require a concession on the size of the package and reduction (if not outright removal) of tax hikes.

- **Balancing Costs/Benefits**. Unlike prior spending bills, which were intended to provide COVID relief into the U.S. economy without offsetting revenues raisers, an infrastructure plan passed via reconciliation would seek to raise taxes to pay for the new outlays. The result may be a payoff pattern that has front-loaded costs to economic growth, with lumpy spending tailwinds thereafter as projects break ground. If passed on a bipartisan basis, it might look a bit more like the prior bills with no associated tax increases.

The infrastructure bill will likely either be smaller in size or offset by revenue raisers, making it less economically stimulative

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GLENMEDE CORPORATE FACTS

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