GLENMEDE

Investment Strategy Insights

July 26th, 2021

Who's Afraid of Peak Growth?

- The Peak Growth Headfake
  - Peak growth and the rise of the Delta variant are so far insufficient to justify a shift away from a neutral risk allocation
- Market's Boomerang Effect
  - While peak growth and Delta variant concerns have risen, they should not be enough to knock the U.S. recovery off its path
- The Dominant Delta Variant
  - Investors should not be alarmed yet, but should continue to monitor the trajectory of the variant and evidence of its severity

GLENMEDE

Investment Strategy Insights

Who's Afraid of Peak Growth?

- **Pushing Back on the "Peak Growth" Narrative.** Amid another strongly unfolding earnings season, some have highlighted concerns around "peak growth," suggesting that the largest gains in post-COVID profitability in the U.S. are now behind us. However, part of this observation is largely just a reflection of the math when calculating year-over-year growth rates – Q2 of 2020 marked a sizable decline in earnings, which set an easier benchmark for Q2 2021 to beat. In some sense, a near-term peak in earnings growth is just the shadow cast by last year's sizable declines.

- **"Peak Growth" in Past Cycles.** Coming out of the last two recessions in the U.S., reported S&P 500 earnings hit peak growth within the first year of the new economic cycle. In retrospect, this marked the beginning of a developing and durable economic growth cycle, one of which ended up being the longest economic expansion in U.S. history (2009 – 2020). As a result, reaching peak growth in the near-term should be viewed as a normal occurrence that should not be fatal to the economic and market outlook.

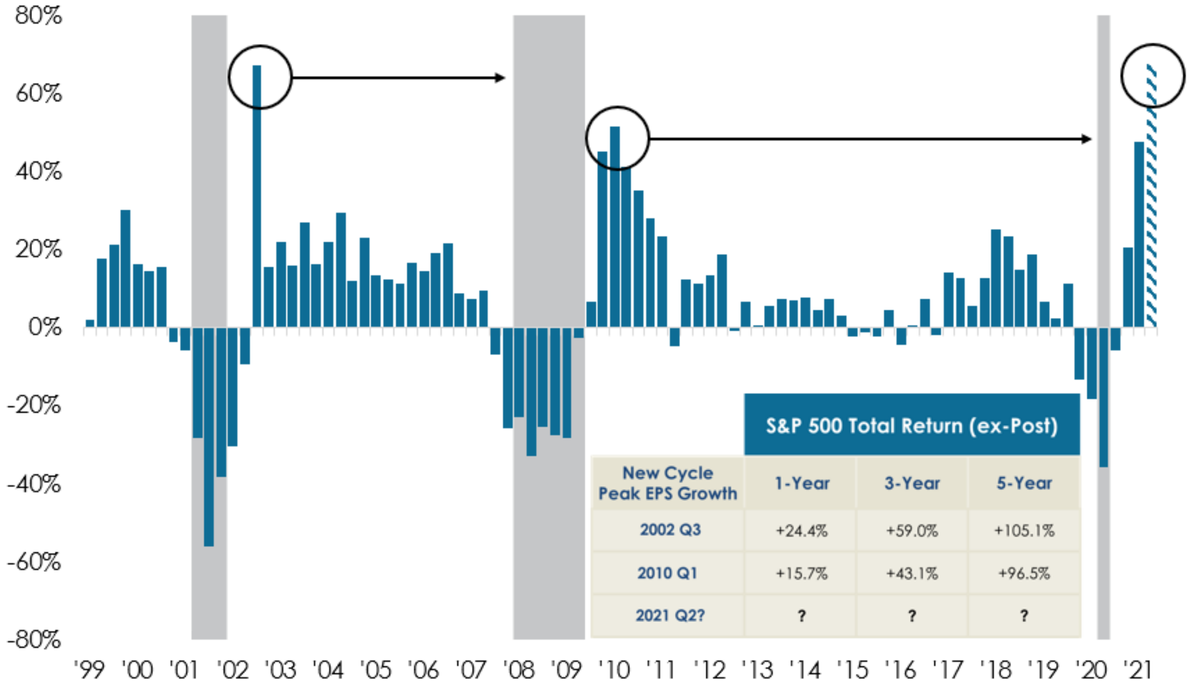
- **Setting the Stage for a New Bull Market?** If anything, the historical record suggests that long-term investors should be celebrating the birth of a new economic, profit and equity returns cycle. For example, in the 1-, 3- and 5-year periods after reaching peak earnings growth since 2000, the S&P 500 has posted cumulative total returns of 12.1%, 51.1% and 100.8% on average, respectively. Rather than obsessing over near-term growth peaks, investors would be wise to see the bigger picture through the noise.

[Peak growth and the rise of the Delta variant are so far insufficient to justify a shift away from a neutral risk allocation

Chart of the Week:

Reaching Peak Growth is a Typical Early Cycle Occurrence

S&P 500 Earnings per Share (Year-over-Year Growth)



New Cycle Peak EPS Growth	S&P 500 Total Return (ex-Post) 1-Year	3-Year	5-Year
2002 Q3	+24.4%	+59.0%	+105.1%
2010 Q1	+15.7%	+43.1%	+96.5%
2021 Q2?	?	?	?

Source: Glenmede, FactSet *Data through 7/22/2021*

Data shown in blue bars is the year-over-year growth rate in earnings per share for the S&P 500 Index, which is a market capitalization weighted index of large-cap stocks in the U.S. Q2 2021 is shown in hashed blue since results for the quarter are not yet final. The gray shaded areas are periods of economic recession in the U.S. Data in the table shows performance of the S&P 500 Index on a cumulative total return basis in the one, three and five years after the index posted a quarterly post-recession peak in earnings per share (EPS) growth. The dates from which 2002 Q3 and 2010 Q1 ex-post performance are measured are 9/30/2002 and 3/31/2010, respectively. Past performance may not be indicative of future results. One cannot invest directly in an index. Actual results may differ materially from projections.

GLENMEDE

Investment Strategy Insights

Market's Boomerang Effect

- **A Flash of Risk-Off.** The S&P 500 opened last week with some volatility, ending Monday's session down 1.6% amid concerns about peak growth and a COVID resurgence via the highly transmissible Delta variant. However, those fears appeared short-lived, as the S&P 500 rebounded 1.5% on Tuesday and ended last week at a new all-time high. This was a subtle reminder to investors that, despite the nearly linear rally in risk assets recently, corrections amid ongoing bull markets are normal, expected events.

- **Interest Rate Reprieve.** The yield on 10-year Treasury Notes made remarkable progress through the end of Q1, climbing to 1.75%. Since then, nearly half of that gain has been retraced, as 10-year yields ended last week at 1.28%. Part of this pullback is attributable to waning inflation expectations which, measured via TIPS* breakevens and inflation swaps, appear to have declined materially from the 2021 highs. In addition, fears around the Delta variant and softening economic activity in China may have increased demand for Treasuries as a safe haven.

- **Value Takes a Breather.** Value stocks began the year with a bang, with the Russell 1000 Value Index outperforming its growth counterpart by 11.4% as of the end of May. Since then, growth stocks have staged a bit of a comeback, outperforming by 11.2% through the end of last week. Value stocks tend to perform better in periods of higher interest rates and stronger economic growth, two trends which have faltered recently but should soon pick up where they left off.

While peak growth and Delta variant concerns have risen, they should not be enough to knock the U.S. recovery off its path

The Dominant Delta Variant

- **COVID Resurgence.** COVID-19 cases are on the rise again in the U.S., as the spreading Delta variant pushes new daily case counts to 35k. According to projections from the U.S. Centers for Disease Control and Prevention (CDC), the Delta variant has increasingly cemented itself as the dominant prevailing strain, now accounting for over 90% of new confirmed cases. It appears that the South is bearing the brunt of this new wave in cases, with FL, MO, TX, LA and GA rounding out the top 5 for most new cases.

- **The Status of Herd Immunity.** Despite the recent uptick in cases, hospitalizations and fatality rates have so far remained low relative to prior waves. This appears attributable to the high percentage of the vulnerable population in the U.S. that is now vaccinated and/or immune via prior infection. Glenmede estimates that 24 states now have more than 70% of their population immune through vaccination or prior infection, with other states closely behind, providing a reasonably strong defense against the Delta variant.

- **What to Watch.** Going forward, investors should keep an eye on trends in COVID-related hospitalizations and deaths for signs that the Delta variant is once again placing pressure on healthcare infrastructure. This matters for markets, since a resurgence in those metrics could cause some states to reimpose restrictions that could potentially suppress economic activity in the short-run. It does not yet seem that the U.S. is near such concerning levels yet, though investors should continue to monitor trends in hospitalizations and deaths closely for signs of sensitivity.

Investors should not be alarmed yet, but should continue to monitor the trajectory of the variant and evidence of its severity

Treasury Inflation-Protected Securities

GLENMEDE

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
Vice President, Investment Strategy

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

Founded in 1956

Serves high net worth individuals, families, family offices, foundations and institutional clients