INVESTMENT STRATEGY INSIGHTS

Bitcoin, Reconciliation & Peak Growth

October 25th, 2021

Bitcoin ETFs and the Crypto Craze

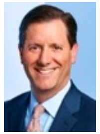
- A flurry of bitcoin ETF launches symbolizes the crypto obsession, obscuring from view more interesting investments within

Reconciling the Reconciliation Bill

- The final compromise package will likely be more moderate and less stimulative to the economy than previous year's spending

Peak Earnings Growth

- Earnings growth will likely continue to moderate from peak growth but should remain acceptable to investors longer-term



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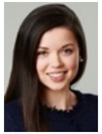

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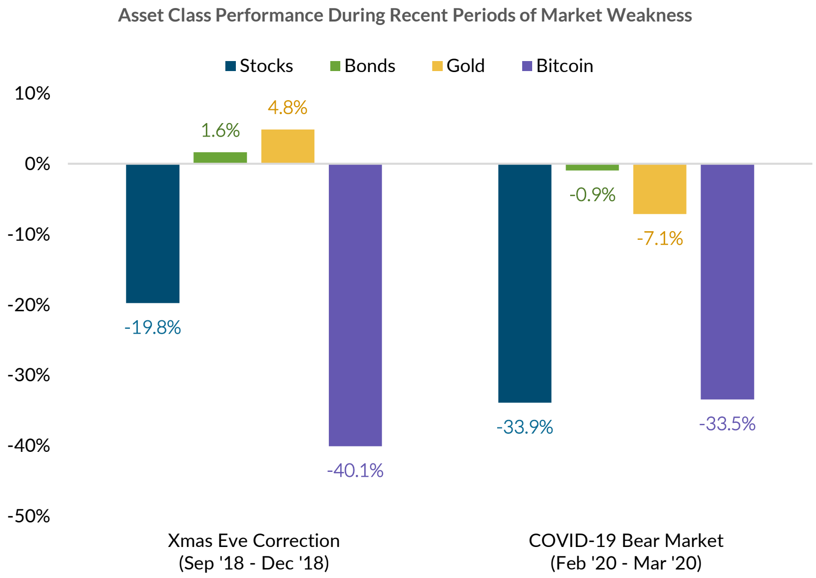
Bitcoin ETFs and the Crypto Craze

- **A Flurry of Bitcoin ETFs.** Bitcoin has again found its way to new highs, driven in part by last week's launch of a new bitcoin-futures-based exchange traded fund, the ProShares Bitcoin Strategy ETF (BITO)*. More than 24 million shares in the ETF traded on its first day, accounting for $993 million, the second largest ETF debut of all time. However, skepticism remains as the ETF invests in futures instead of directly in Bitcoin, and thus may not be able to perfectly replicate the performance of the targeted cryptocurrency.
- **Bitcoin as an Investment.** Viable investment assets tend to operate either as a store of value for transactions or as a diversifying source of future returns. A still early-stage basis for transactions, Bitcoin falls short of other stores of value since its volatility undermines its utility as a predictable basis for purchases. Similarly, while it does appear to often be non-correlated with other investment assets, it has exhibited a strong relationship to equities during equity market downturns, undermining the argument for potential diversification benefits. However, should Bitcoin attain a more solid basis for transactions, its performance on these criteria may change.
- **Investments Within the Blockchain.** While Bitcoin and other typical transactional cryptocurrencies appear disadvantaged relative to other stores of value and investment assets, the advent of cryptocurrencies and blockchain technology may be a fruitful playground for investors. Blockchain-based technology is rapidly evolving and finding applications such as decentralized finance and digital rights ownership. Such investments, with interest-like or stock-buyback-like attributes, may prove more interesting.

A flurry of bitcoin ETF launches symbolizes the crypto obsession, obscuring from view more interesting investments within

*The ETF identified is provided solely for illustrative purposes and should not be perceived as a recommendation or solcitiation for investment

Chart of the Week:



Source: Glenmede, FactSet, CoinDesk Data through 10/22/2021
Stocks are represented by the S&P 500 Index, bonds are represented by the Bloomberg Barclays U.S. Aggregate Index, gold is represented by the SPDR Gold Trust and Bitcoin is represented by daily transactions via CoinDesk. Past performance may not be indicative of future results. All indices mentioned are unmanaged, total return indices with cash flows reinvested. One cannot invest directly in these indices.

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Bridging the Gap to a Smaller Fiscal Plan

- **~~$4 trillion~~, ~~$3.5 trillion~~, ~~$2 trillion~~, $1.7 trillion?** Congress has been hard at work on the reconciliation package, which has seen notable changes over the past weeks. The reconciliation bill requires 50 democratic votes in the Senate to pass, leaving the critical votes with moderate Democrats Manchin and Sinema. These discussion have led to expected reductions in the original $4 trillion package multiple times and now appears to be finally settling down to a range between $1.7 – 1.9 trillion.
- **Where Are the Cuts?** It is not exactly clear yet which provisions may be cut to trim the bill under the $2 trillion mark. One option considered is reducing the dollar figure for many line items by sunsetting the provisions earlier than the typical 10-year time horizon. Among those are American Rescue Plan's premium credits, Medicare expansion, chile tax credits, Pre-K/childcare and paid family leave initiatives. The Clean Electricity Standard also appears under debate given its large ticket size and may be swapped for a smaller package of tax subsidies for renewable energy substitutes. Free community college may also have been left on the cutting room floor.
- **The Revenue-Raising Debate**. Senator Sinema's concerns, which seem focused on headline tax rates (corporate, individual and capital gains), have shifted the discussion to decreasing the contribution from these headline rates and focusing on other revenue raisers such as the global intangible low-taxed income (GILTI) rate, the minimum corporation income tax, as well as unrealized gain taxation. It remains unclear where this discussion will settle.

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What's Up with Rates?

- **Earnings Season in High Gear.** Third quarter earnings season is heating up, with more than 100 companies in the S&P 500 have posted earnings results. With about 21% of companies reporting, the blended year-over-year growth in estimated earnings is expected to be 31.5%, including estimates with actual results for those companies that have already reported. So far, 80% of companies have reported a positive earnings surprise with an average beat of 10.4%, despite the preponderance of companies highlighting supply chain pressures as a difficulty during the quarter.
- **Value Sector Standouts.** The energy sector remains the standout contributor to growth during the quarter with earnings increasing from a $1.5 billion loss in the year-ago quarter to a $21 billion gain in the current quarter. Similarly, the cyclical materials and industrial sectors are expected to post 90%+ and 60%+ year-over-year growth in earnings. The financials sectors has been a large contributor to the recent earnings surprises. These four sectors are often considered value in orientation given their typically higher representation in the value indices.
- **Leaving the Recession (and Recovery) Behind?** Although the growth rates for earnings and revenues have been exceeding expectations, growth is due to slow from these peak levels. The S&P 500 sales growth has already declined from 25.3% in Q2 to an estimated 12.5% in Q3, with 8 different sectors exhibiting a sales growth decline. With the recession and recovery moving further into the rear-view mirror, expect growth to slow from peak levels and settle into a more moderate rate that may ultimately remain acceptable to investors.

Earnings growth will likely continue to moderate from peak growth but should remain acceptable to investors longer-term

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