Coming Up, on Capitol Hill

November 29th, 2021

December's Tight Timeline

- Expect the more moderate reconciliation bill to eventually pass, but not without a fair amount of noise in the coming weeks

Growth Despite Supply Chain Issues

- Earnings growth may be peaking, but growth is likely to continue at a pace high enough to keep investors' attentions

The Fed's Stable Evolution

- Expect the Fed to continue gradually normalizing monetary policy, adjusting appropriately to perceived excess inflation

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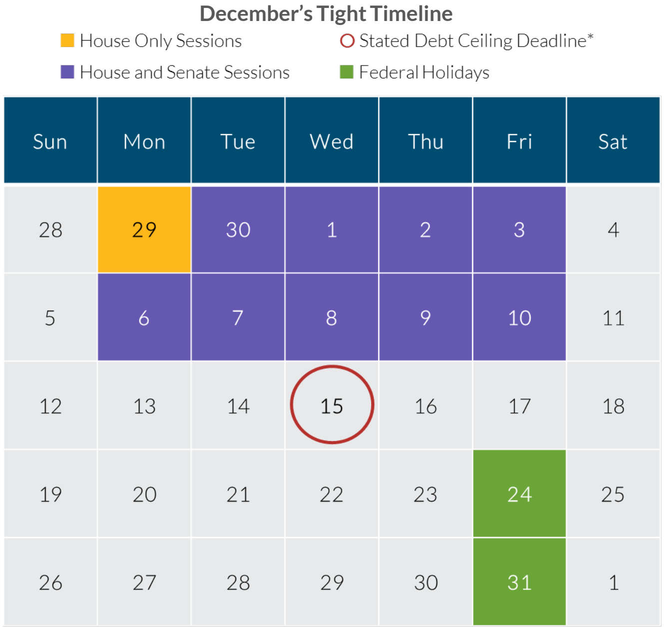
December's Tight Timeline

- **Previously, on Capitol Hill.** Congress has already passed part one of the Biden Administration's fiscal plan, the bipartisan infrastructure bill. With $550 billion of new spending spread over 10 years, the legislation provides much-needed funding for transportation, electrical, broadband, water and environmental infrastructure.
- **Next up, Reconciliation and the Debt Ceiling.** The House of Representatives passed its version of the $1.75 Billion Build Back Better bill in a 220-211 party-line vote, sending it on to the Senate prior to the Thanksgiving recess. Congress will again take up the reconciliation bill negotiations when it returns on Monday, Nov. 29, for a two-week session. Adding to the complication, Treasury Secretary Yellen announced she expects the earliest a default could possibly occur is Dec. 15. While the odds of a technical default remain low, investors should expect the noise to rise in the coming weeks before a resolution is agreed upon.
- **Contours of the Reconciliation Bill.** Although Senators Manchin and Sinema have previously blocked the bill, discussions are ongoing and passage by year-end remains in play. The bill, as passed by the House, includes spending on universal pre-k, paid family leave, clean energy & climate resilience infrastructure, as well as revenue-raisers such as the 15% minimum corporate tax and a tax surcharge on personal income over $10 million. The bill will likely undergo some change before heading back to the House, with the deficit spending impact and items such as paid family leave and state and local tax (SALT) deductions under the microscope.

Expect the more moderate reconciliation bill to eventually pass, but not without a fair amount of noise in the coming weeks

Chart of the Week:



Source: Glenmede, FactSet, U.S. Treasury, U.S. Congress As of 11/24/2021
*Stated Debt Ceiling Deadline shown is the deadline stated by Treasury Secretary Janet Yellen. Due to the flexibility afforded the Department of Treasury by extraordinary measures, the actual date at which the U.S. government exhausts its funding could be as late as mid-January.

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Growth Despite Supply Chain Issues

- **Earnings Season's Strong Finish.** With about 95% of companies in the S&P 500 having reported so far, the blended year-over-year growth rate in earnings, which combines actual results with estimates for companies that have not yet reported, currently sits at +39.6%. So far, 82% of companies have reported a positive earnings surprise, beating consensus estimates by 11.7% on average, despite ongoing supply chain disruptions and labor market tightness.
- **Main Theme: Supply Chain.** Supply chain disruptions have been one of the most prominent issues this quarter, with 342 companies within the S&P 500 citing supply chain impacts. This is the highest number over the past 10 years, breaking the previous record of 290 companies citing supply chain impacts during Q1 2020. The top sectors by percentage that are citing impacts are materials (96%), consumer staples (96%) and industrials (96%). Each sector except financials had over 50% of companies report about supply chain impacts.
- **Peak Growth.** Some investors have highlighted concerns about growth expectations not being as prominent in future months. Although peak growth historically has occurred within the first year of an economic recovery, those outcomes should not be a primary concern as markets have historically delivered positive returns after earnings growth peaks. Current growth estimates for 2022, before fiscal and Fed policy updates, are at nearly 10%, which should keep investors' attentions a bit longer.

Earnings growth may be peaking, but growth is likely to continue at a pace high enough to keep investors' attentions

The Fed's Stable Evolution

- **Nominating the Chairs.** President Biden has re-nominated Federal Reserve Chair Jerome Powell for another term and Fed Governor/former Treasury Undersecretary Lael Brainard to Vice Chair, replacing Richard Clarida. These appointments convey stability while also initiating gradual change. While opinions vary on the Fed's actions, markets generally see Powell as providing a steady hand guiding the Fed through the pandemic. The appointment of Brainard, a Democrat and the third female to occupy the Vice Chair position, provides her a stronger voice and platform to push for greater bank regulation.
- **Normalizing Faster?** Markets are again considering the possibility that the Fed will normalize monetary policy faster than originally expected. Multiple Fed speakers have publicly suggested that accelerating the tapering of bond purchases might be appropriate. Fed funds futures are pricing in rate hikes by the middle of 2022 instead of previous expectations of rate hikes at the end of 2022. A modest acceleration of normalization of monetary policy may be justified given inflation's strength heading into 2022.
- **Supply chain's inflation head-fake.** Supply chain disruptions have been a primary driver to the excess inflation experienced in 2022. However, two very important ports, Los Angeles and Long Beach, have been highlighting significant improvements over recent days. Customer inventories, those at final retailers and online distribution warehouses, have been improving as well. The potential resolution of supply chain issues has been at the heart of the Fed's "transitory" arguments, leading them to respond gradually with monetary policy rather than sharp adjustments.

Expect the Fed to continue gradually normalizing monetary policy, adjusting appropriately to perceived excess inflation

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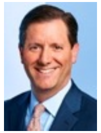

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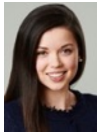

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