EARNINGS GOVERNMENT POLICY INVESTING INTEREST RATES MARKETS ECONOMY

INVESTMENT STRATEGY INSIGHTS

This Week, The Letter "E"

February 7th, 2022

Eyes on Eastern Europe

- Markets and the economy may be impacted by fresh supply chain disruptions, but have a history of longer-term resilience

Economic Symptoms of COVID-19?

- As the omicron wave begins to fade, the process of economic normalization is likely to continue

In the Heart of Earnings Season

- Earnings are expected to remain strong in 2022, but growth should continue to moderate to a more sustainable pace

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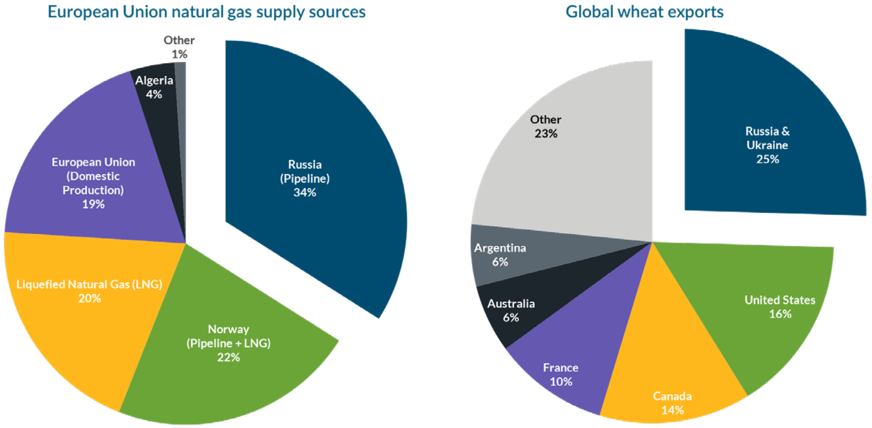
Eyes on Eastern Europe

- **Tensions Rise.** The potential for armed conflict between Russia and Ukraine is the latest geopolitical threat with which markets and investors have come to wrestle. A recent poll* of foreign policy experts in the U.S. showed 56% of respondents expecting Russia to use military force against Ukraine. From an economic and market perspective, the direct impact of armed conflict is likely small, as Russia and Ukraine combined represent a mere 2.8% of global GDP and less than 0.5% of global equity market capitalization.
- **Gauging Secondary Impact.** Open hostilities between the two countries may have other, indirect flow-through effects. For example, the European Union relies on Russia for more than a third of its natural gas supply. Also, Russia and Ukraine combined account for a quarter of global wheat exports. Such large presence in these markets could cause more disruptions to already strained supply chains. In addition, western threats to exclude Russians from SWIFT** could cause issues for banks that have extended credit to Russian guarantors, though the scale of this exposure in aggregate appears low.
- **The Long & the Short of Geopolitical Risk.** Global equity markets have a track record of longer-term resilience in the face of geopolitical flareups. However, this does not mean that markets are immune to the risks of armed conflicts over the near-term. For example, in reaction to support for Israel in the Yom Kippur War, the OPEC oil embargo unleashed sizable inflation pressure in the U.S. However, the U.S. economy appears notably less vulnerable to similar risks this time around, especially since the U.S. has lately been producing enough energy of its own to become a net exporter.

Markets and the economy may be impacted by fresh supply chain disruptions, but have a history of longer-term resilience

Chart of the Week:

Open conflict could worsen global supply chain issues



Source: Glenmede, Evercore ISI, Observatory of Economic Complexity (OEC)
Shown in the left panel are the sources of natural gas supply for the European Union as of the full year 2020. Shown in the right panel is each's country's contribution to global wheat exports as of full year 2019.

*Conducted by the TRIP (Teaching, Research & International Policy) Project at the College of William & Mary's Global Research Institute and the Sie Center at the University of Denver. The results are based on responses from 362 experts between 12/16/2021 and 1/27/2022
**Society for Worldwide Interbank Financial Telecommunications (SWIFT) serves as an intermediary for cross-border financial transactions

This Week, The Letter "E"

Economic Symptoms of COVID-19?

- **Standing By for CPI.** The highlight of the coming week is Thursday's U.S. Consumer Price Index (CPI) report, which is likely to show hotter-than-normal inflation spilling into 2022. Consensus estimates are expecting a 7.3% year-over-year growth print for the CPI, which would mark the fastest pace of inflation since Michael Jackson's *Thriller* hit record stores. All else equal, more fuel to the inflation fire may harden the Fed's resolve to begin raising interest rates at its next meeting in March.
- **Payrolls Persevere Omicron Disruptions**. 467k new workers were added to non-farm payrolls in the U.S. to begin the new year, dispelling fears that the omicron wave would cause a material disruption to the ongoing recovery in the labor market. That comes on top of a more than 2.5x revision to December's figures, up from a relatively subdued +199k to +510k. This highlights just how volatile the payrolls report can be, as it typically undergoes material revisions in the months following initial release.
- **Omicron in the Rearview Mirror?** Reported U.S. COVID-19 case counts have declined dramatically, dropping from a high of 2,400 cases per million down to 1,300 just over the past week. Hospitalization rates appear to be following case counts lower, though the fatality rate has not yet turned the corner. Elsewhere in the world, there are signs that cases may be peaking in both Europe and Asia. As had previously been the case in the U.K. and Gauteng Province of South Africa, omicron's impact appears to be falling almost as quickly as it rose.

As the omicron wave begins to fade, the process of economic normalization is likely to continue

In the Heart of Earnings Season

- **Results Continue to Trickle In.** With approximately 56% of companies reporting so far, the blended year-over-year earnings growth estimate for the S&P 500, which combines actual results with consensus estimates for firms that have yet to report, currently sits at 29%. If earnings season continues to unfold as expected, it would mark the fourth straight quarter of 20%+ annual growth in earnings for the index.
- **Surprise, Surprise.** Of the companies in the S&P 500 that have already reported, 77% have reported a positive earnings surprise. Although this is a lower percentage than last year's average of 83%, it is still slightly above the 5-year average of 76%. At the sector level, the utilities (100%), information technology (90%) and real estate (90%) sectors have the highest percentages of companies reporting earnings above estimates, while the materials (56%) and consumer staples (61%) sectors have the lowest percentages.
- **Casting Eyes Ahead.** Investors are parsing Q4 earnings calls for clues on the factors that may influence corporate profitability trends in 2022. Supply chain and labor supply issues have already bubbled to the top as key hurdles companies have been forced to reckon with. Looking ahead, consensus estimates peg 2022 earnings per share (EPS) growth for the S&P 500 at 8.4%. This would be a notable slowdown from 2021's outsized 46.4% EPS growth rate, though that's not surprising when rebounding from recession lows. Ultimately, it is likely that earnings will level out at a more muted, though still favorable and acceptable, growth rate consistent with a healthy ongoing expansion.

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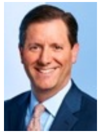

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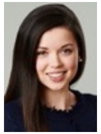

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GLENMEDE CORPORATE FACTS

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