

# The End May be Endemic

February 22<sup>nd</sup>, 2022

## From Pandemic to Endemic

- COVID-19's shift to an endemic disease may facilitate a continued return to a more normal economic environment

## Escalating in Eastern Europe

- Investor anxiety around geopolitical tensions should be expected, but markets have a history of longer-term resilience

## The Late Innings 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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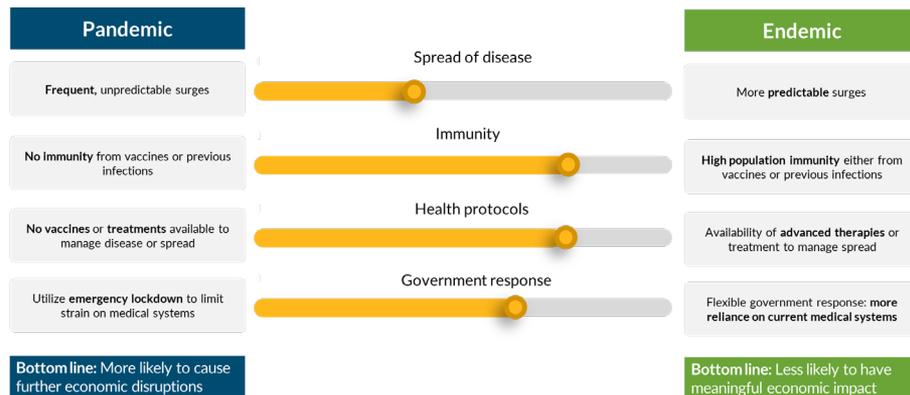
## From Pandemic to Endemic

- **Wrestling COVID Under Control.** New reported COVID-19 case counts in the U.S. have dropped precipitously over the last few weeks, from a pandemic high of 2,410 daily cases per million just a few weeks ago down to 355 (and falling). Similar trends appear to be unfolding in Europe and Asia as well, as the surge of infections associated with the omicron variant appears to be receding.
- **Return to Normalcy?** Last week, Dr. Fauci noted that the U.S. should be “inching” toward some semblance of normal. As of last Friday, there were only 18 of 50 U.S. states that had an active COVID-19 emergency order in place, down from 28 at the start of the year. Additionally, a recent Monmouth University poll found 70% of respondents agreed with the statement “it’s time we accept COVID is here to stay, and we need to get on with our lives.”
- **An Endemic Outcome.** It’s possible that the COVID-19 pandemic that has so dramatically upended our way of life could take a turn toward endemic at some point this year. An endemic disease is one that is constantly present in the population with occasional localized flare-ups, such as chicken pox. There may be existing vaccines or advanced therapeutics that help keep the threat of disease more manageable, with limited disruption to social life and the economy. There are some initial signs that COVID-19 might be moving toward an endemic classification. Relatively broad population immunity and a reduction in virulence via the omicron variant are trending endemic, though the virus does remain highly communicable.

*COVID-19’s shift to an endemic disease may facilitate a continued return to a more normal economic environment*

## Chart of the Week:

### COVID-19’s shift to endemic could facilitate a return to normal



Source: Glenmede

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## Escalating in Eastern Europe

- **Tense Geopolitics.** Over the weekend, Russian President Putin recognized the Donetsk and Luhansk People's Republics within Ukraine and sent in "peacekeepers" (i.e. troops) to those eastern Ukrainian regions. The U.S. and other ally countries began the process of implementing sanctions, although not quite the "swift and firm" sanctions that had been suggested as a response to a full Ukraine invasion. While the direct impact of armed conflict is likely small, Russia supplies ~1/3 of Europe's natural gas, Russia/Ukraine combined account for a quarter of the world's wheat exports and Ukraine produces ~90% of the global supply of semiconductor-grade neon.
- **History as Guide.** Global equity markets have a track record of longer-term resilience in the face of geopolitical flareups. For example, U.S. equities experienced a correction when Iraq invaded Kuwait in 1990, but rebounded relatively quickly in the months thereafter. This does not mean that the economy and markets are immune to the risks of armed conflicts over the near-term. For instance, in reaction to support for the Yom Kippur War, the OPEC oil embargo unleashed sizable inflation pressure in the U.S.
- **Investment Implications.** It is very difficult (if not outright impossible) for investors to predict geopolitical outcomes with certainty. This highlights the value of a thoughtful approach to policy selection, as an appropriately-sized fixed income/cash allocation can often act as a shock absorber in volatile markets. On top of that, tactically tilting away from Europe within foreign equities could reduce exposure to conflict at the margin. An overweight to real estate may also be less sensitive to overseas developments.

*Investor anxiety around geopolitical tensions should be expected, but markets have a history of longer-term resilience*

## The Late Innings of Earnings Season

- **Earnings Season Home Stretch.** With approximately 86% 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 30.9%. If earnings season continues to unfold as expected, it would mark the fourth straight quarter of 30%+ annual growth in earnings for the index.
- **Picking Up on Trending Keywords.** A notable proportion of earnings call transcripts contain references to recent economic prints and geopolitical events. So far, more than 73% of companies in the S&P 500 have discussed inflation during their Q4 earnings calls. For reference, only 40%, 45% and 62% did so during the 2021 Q1, Q2 and Q3 earnings seasons, respectively. In addition, at least 14 companies in the S&P 500 fielded questions specifically related to Russia/Ukraine tensions on their earnings calls.
- **Focusing in on 2022.** 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 48.1% EPS growth rate, though that's not surprising given the rebound 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.

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

## INVESTMENT STRATEGY INSIGHTS

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