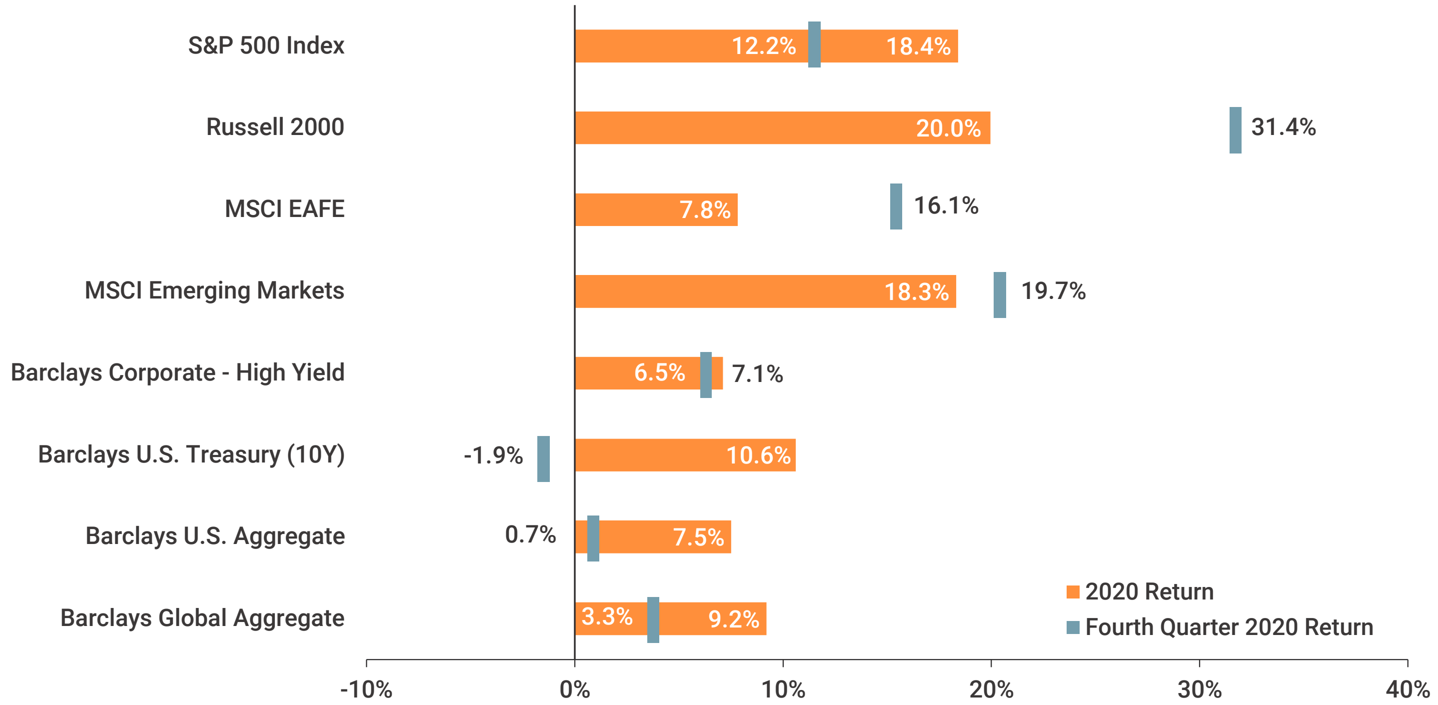
GLENMEDE
INVESTMENT MANAGEMENT

Market review: Fourth Quarter 2020



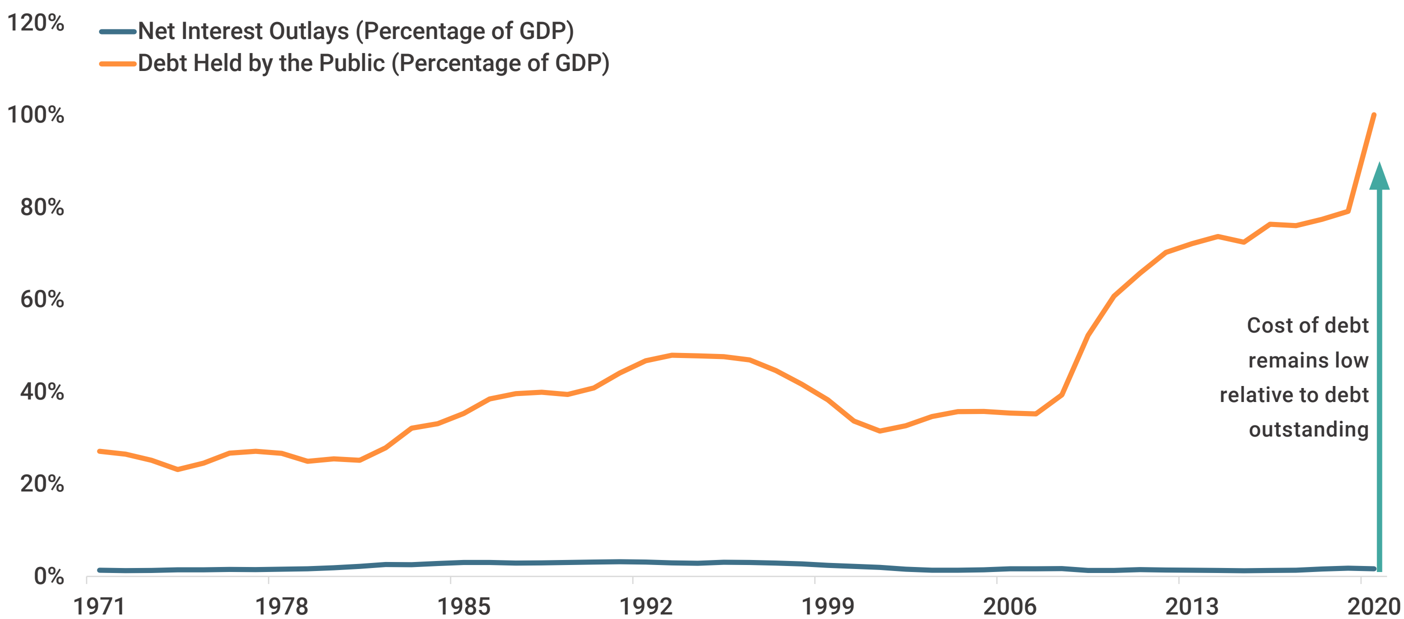
Sources: Glenmede Investment Management L.P. and FactSet *As of 12/31/2020*

Summary

2020 marked an unexpected and tumultuous year for investors. After reaching record highs in February, the S&P 500 experienced both its fastest drawdown and recovery in history due to the effects of the COVID-19 pandemic. Relatively few asset classes were spared from this volatility and initial drawdown. However, as the year advanced, investor sentiment strengthened in response to supportive fiscal and monetary policies, stronger than expected third quarter earnings and revenues, re-openings of businesses and medical advances against COVID-19. While ultimately markets reached new highs in the fourth quarter beyond those set in February, underneath the surface market returns remained concentrated and disconnected with the economic reality of consumer spending and subsequent GDP growth which were hampered by the lingering impacts of the pandemic.

Below we highlight key observations from 2020, and potential implications for investors as we move into 2021.

EXHIBIT 1: Will an increasing U.S. debt load weigh on markets?



Sources: Glenmede Investment Management LP., www.cbo.gov/publication/56780 *As of 12/31/2020*
Data shown in orange reflects the total amount of debt outstanding from the federal government less the portion of that debt held by government entities (i.e. net debt) as a percentage of GDP. Data shown in blue reflects the interest payments on that net debt as a percentage of GDP. Past performance is not indicative of future performance.

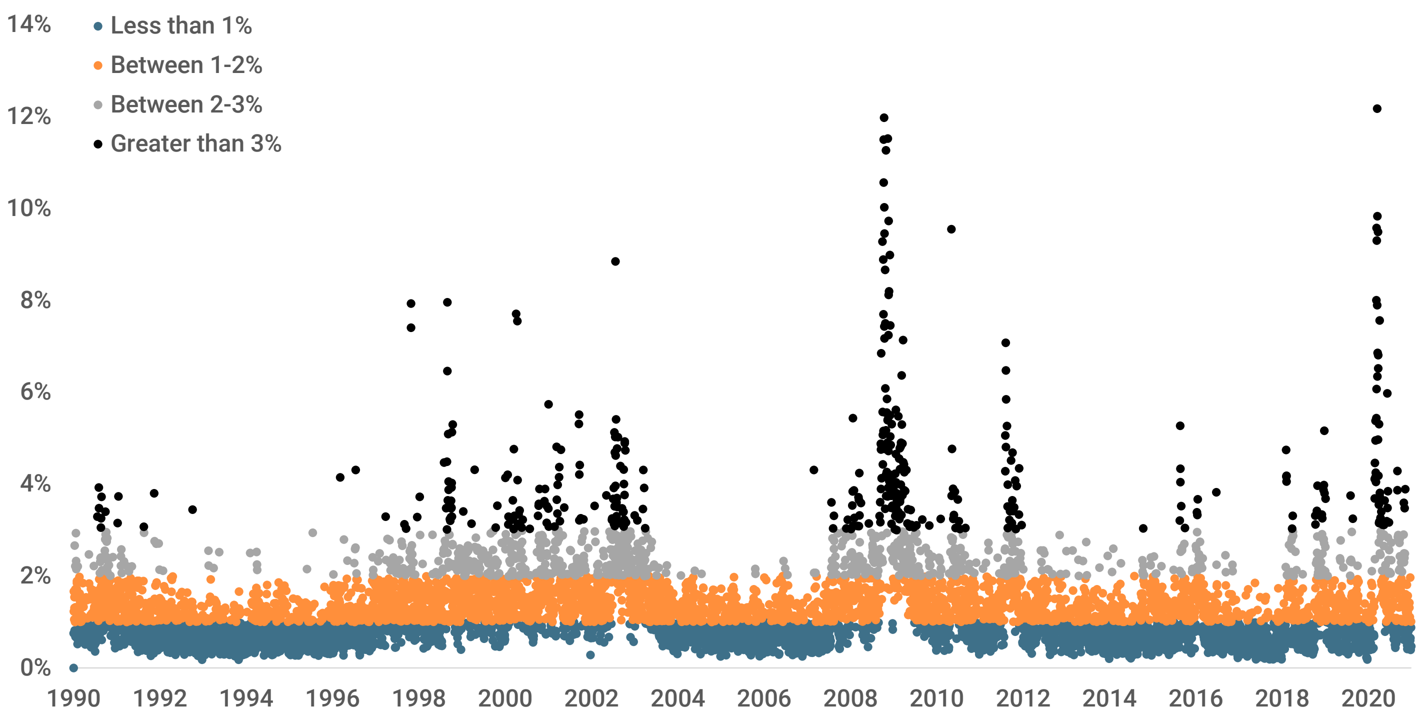
Past Year

Given the unprecedented fiscal and monetary support initiated during the Covid-19 crisis coupled with the economic slowdown of the economy, the national debt currently exceeds U.S. GDP, as seen in the chart above. According to the Congressional Budget Office (CBO), over the past decade, the debt held by the public has increased by 65% relative to GDP. While the substantial expansion of U.S. debt is worrisome, the cost to finance the debt as a percent of GDP has only grown by about 25% relative to GDP given the low interest rate environment and is currently ~1.6% of GDP and 5.3% of total spending.

Looking Forward

The current cost to service the debt is below the 50-year average of 2% of GDP. Even with increased debt, the CBO's expectation for this cost is for it to decline over the next several years and remain below current levels until 2029. The current low interest rate environment potentially offers the nation opportunities to front-load investments for longer-term economic growth, but these debts will need to be paid and could become more cumbersome in the future with an increase in interest rates. The CBO expects a steady rise in the 10-year Treasury rates, from an average of 1.1% in 2020 to 3.1% in 2030. This could double net interest outlays by 2030, to 2.2% of GDP and 9% of total federal spending, according to the CBO. The historical highs for these metrics were 3.2% of GDP in 1991 and 15.6% of total federal outlays in 1996. While the current cost to service the growing debt represents a below average percent of GDP, increased debt service costs could result in lower national savings, income, and productivity as a lower percentage of GDP is invested in business growth.

EXHIBIT 2: 2020 Intra-day volatility of S&P 500 resembles Great Financial Crisis



Sources: Glenmede Investment Management L.P., Bloomberg *As of 12/31/2020*
Daily move is the maximum of the daily close-to-close or intraday move of the S&P 500 Index. Past performance is not indicative of future performance.

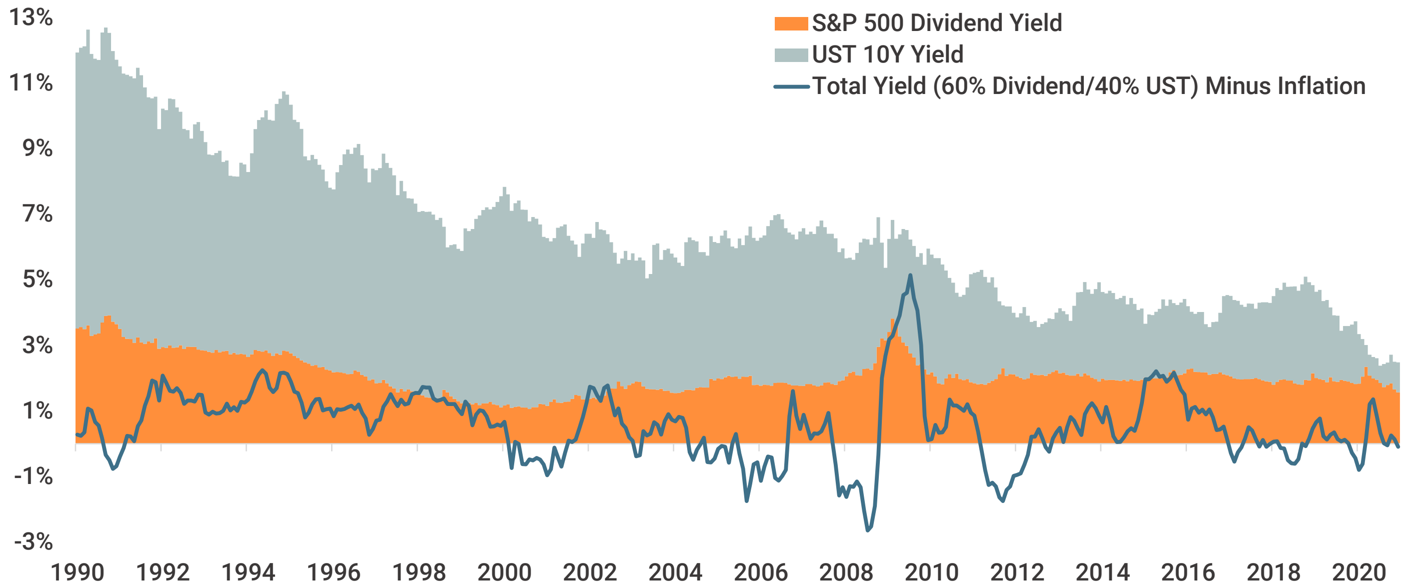
Past Year

Volatility surged in 2020 to a level not seen since the Great Financial Crisis. The CBOE Volatility Index (VIX) made a new all-time high and had an average closing price for the year of 29.2, nearly 50% above its 19.5 average since 1990. This shift in the VIX coincided with more frequent and larger intra-day market moves in the S&P 500. With 47 daily moves of at least +/- 3%, oscillations of this magnitude have not been experienced since 2008 and 2009 and compare to an average of only 12.5 days with movements +/-3% annually since 1990.

Looking Forward

The chart above shows the daily moves in the S&P 500 since 1990 broken into ranges, with the black dots representing daily movements +/- 3%. While the longer-term average of the VIX is 19.5, interestingly, volatility and daily moves tend to cluster in low or high volatility regimes rather than a flip-flop in back-to-back years. Given the relatively low volatility in the past several years, markets could continue to experience above average volatility into 2021, consistent with what the current VIX futures curve implies. The average VIX closing price was not a determinant of whether the index finished in positive territory, with high and low VIX averages seeing both positive and negative years. The VIX average reflected how bumpy the path was to get through the year.

EXHIBIT 3: Traditional 60/40 allocation does not yield what it used to



Sources: Glenmede Investment Management L.P., Bloomberg, CPI *As of 12/31/2020*
Past performance is not indicative of future performance.

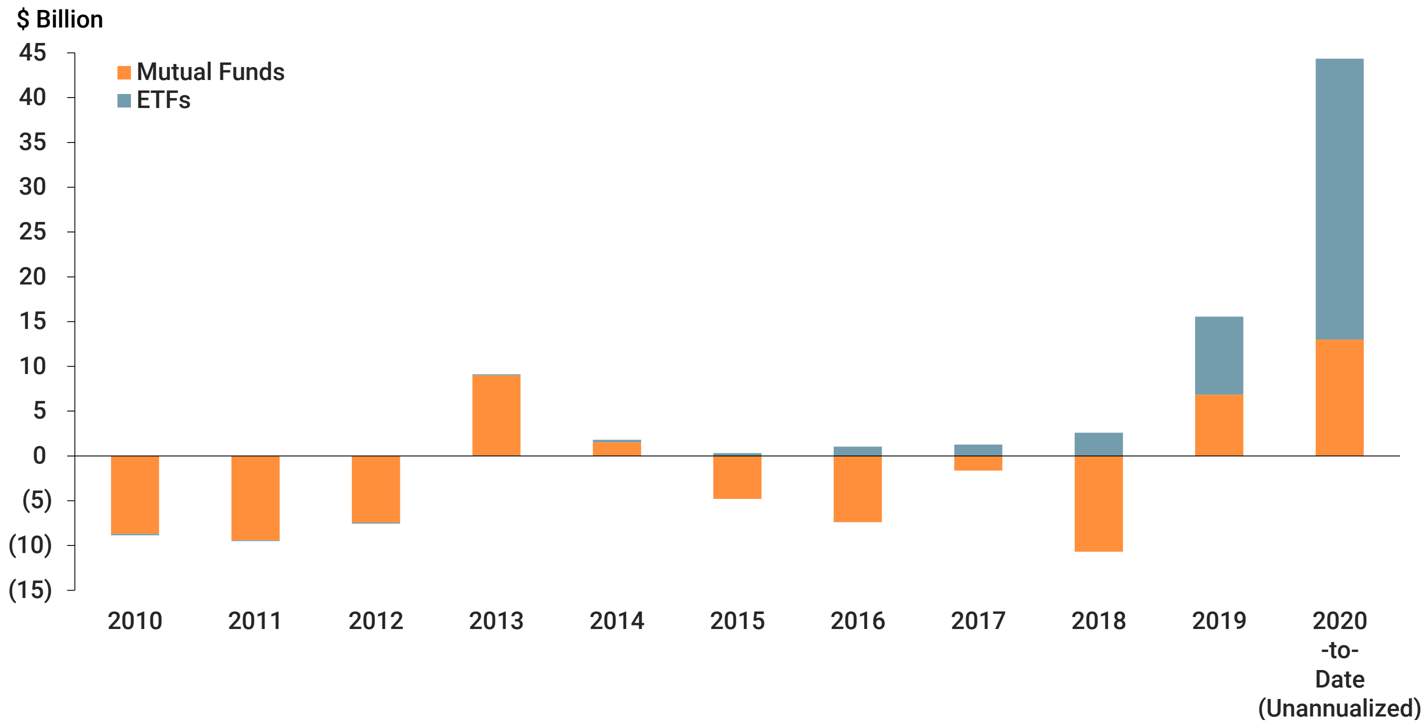
Past Year

With the unprecedented monetary support previously mentioned, US Treasury 10-year yield hit a record low of 51 bps in August. While the pandemic took an initial toll on corporate dividends, in absolute terms the S&P reported that its S&P 500 index "set a record payment of $58.28 per share, slightly up from the prior record of 2019's $58.24." While the index rally on the year pressured the percentage yield of the S&P 500 lower to ~1.6%, the S&P 500 still produced more income than U.S. 10-year Treasury bonds.

Looking Forward

The chart above shows the U.S. Treasury 10-year yield and the S&P 500 dividend yield. The year finished with a combined total 2.5% yield, which is well below the 20-year average of 5.2%. The chart also includes the theoretical yield of a constant portfolio allocation of 60% equity and 40% fixed income portfolio minus inflation. The Federal Reserve has continually stated that it intends to keep rates low for the foreseeable future and is comfortable with inflation increasing above 2%. While S&P 500 companies are demonstrating dividend growth again, the yield is unlikely to close the gap left by lower Treasury yields. Ultimately, this creates a conundrum for income seeking investors, particularly including real rates given the potential increase of inflation. The reach for yield comes with a potential increase in risk and volatility. While overall income expectations may need to be adjusted, investors could also consider actively managed fixed income and dividend-focused equity funds that may offer more attractive risk-adjusted returns.

EXHIBIT 4: Interest in ESG surges in 2020 despite pandemic



Sources: Strategic Insight Simfund, Empirical Research Partners Analysis *As of 12/31/2020*
ESG status based on fund prospectuses. Includes both equity and bond funds. Past performance is not indicative of future performance.

Past Year

At the start of the pandemic, concerns surfaced that environmental, social, and governance (ESG) investing would take a backseat. However, the pandemic actually accelerated interest from asset owners. Flows into ESG funds and ETFs were record breaking in 2020 and reflected that interest is persistent despite market volatility. ESG integration, or the explicit incorporation of ESG criteria within investment analysis, has received particular interest from investors, as its strategic goal is consistent with the maximization of risk-adjusted returns.

Looking Forward

Investors will keep a close eye on ESG fund returns to help gauge if ESG analysis is accretive, or at least risk-mitigating, to strategy performance. We expect increasing investor attention to ESG criteria within the context of fundamental investing as data availability and analysis methods improve. For example, both "E" and "S" pillars may receive increased attention in 2021 as the new administration targets spending to combat climate change and as the nation continues to grapple with the social unrest experienced in the summer of 2020. This attention may drive improved methods of data collection and disclosure that enable the ability to conduct thorough ESG analysis.

THE QUARTERLY STATEMENT
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