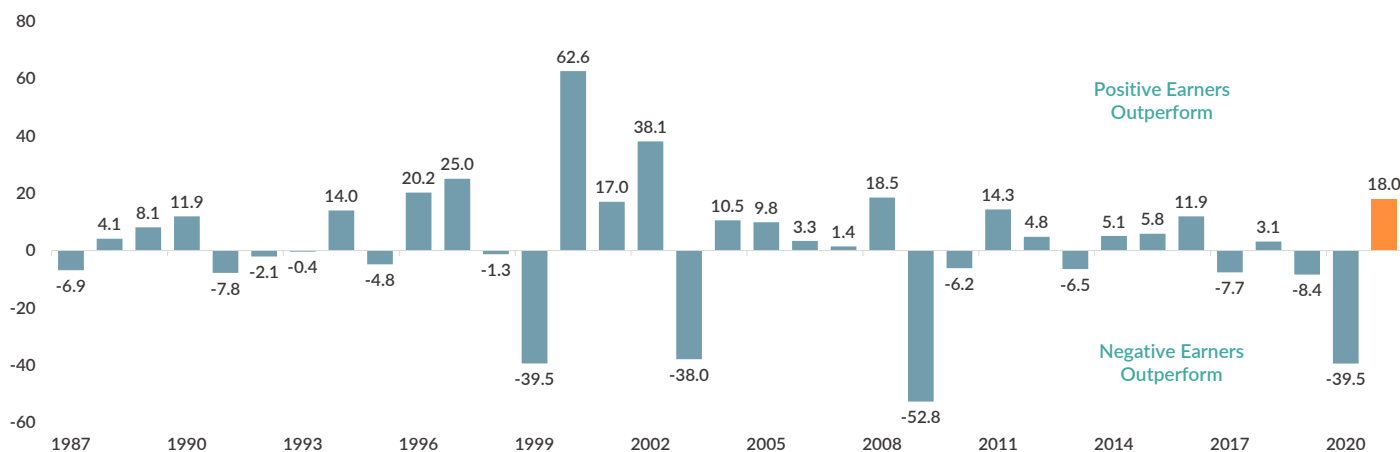


IS THE PENDULUM SWINGING BACK TO POSITIVE EARNERS?

- The cyclical nature of the Russell 2000 Index appears to have swung back in favor of positive earners, with these stocks outperforming negative earners by 18% as of November 30, 2021, as noted in the chart below. We define a negative earner as any company without earnings over the trailing 12 months. As of November 30, ~36% of the Russell 2000 were negative earners, slightly off the all-time highs earlier this year at ~38%, and well above the average of ~19.5% since data became available in August 1993.
- Historically, investing in companies with positive earnings has generally been a successful strategy versus investing in companies with negative earnings, as noted in our October 2020 report [Why Profitability Matters: Positive vs Negative Earnings](#). Since December 1986 through November 30, 2021, positive earners have experienced more than 2 times the average annualized return with less than two-thirds of the risk (average annualized return of 10.5% for positive earners versus 4.6% for negative earners and standard deviation of 19.5% versus 33%, respectively).
- A significant portion of this longer-term outperformance of positive earners is the avoidance of the large drawdowns following market bubble bursts like the Internet Bubble in the early 2000s and the Financial Crisis in 2008. Given the notable rally of negative earners following the unprecedented monetary and fiscal support during the COVID-19 pandemic, we believe we are at the start of a more noteworthy divergence in performance of these stocks and continue to favor positive earners. A passive index like the Russell 2000, and to a lesser extent the S&P 600 Small Cap Index, is more likely to have greater exposure to these negative earners than actively managed strategies that prefer undervalued, higher quality stocks and therefore could experience underperformance during this cyclical shift back to positive earners.

Russell 2000 Positive less Negative LTM Earnings Relative Annual Return



Sources: FactSet, FTSE/Russell, Glenmede Investment Management
Past results are not indicative of future performance

Data as of 11/30/2021

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