MARKET SNAPSHOT

GLENMEDE
INVESTMENT MANAGEMENT

WHAT DO CHEAP AND EXPENSIVE STOCKS HAVE IN COMMON?

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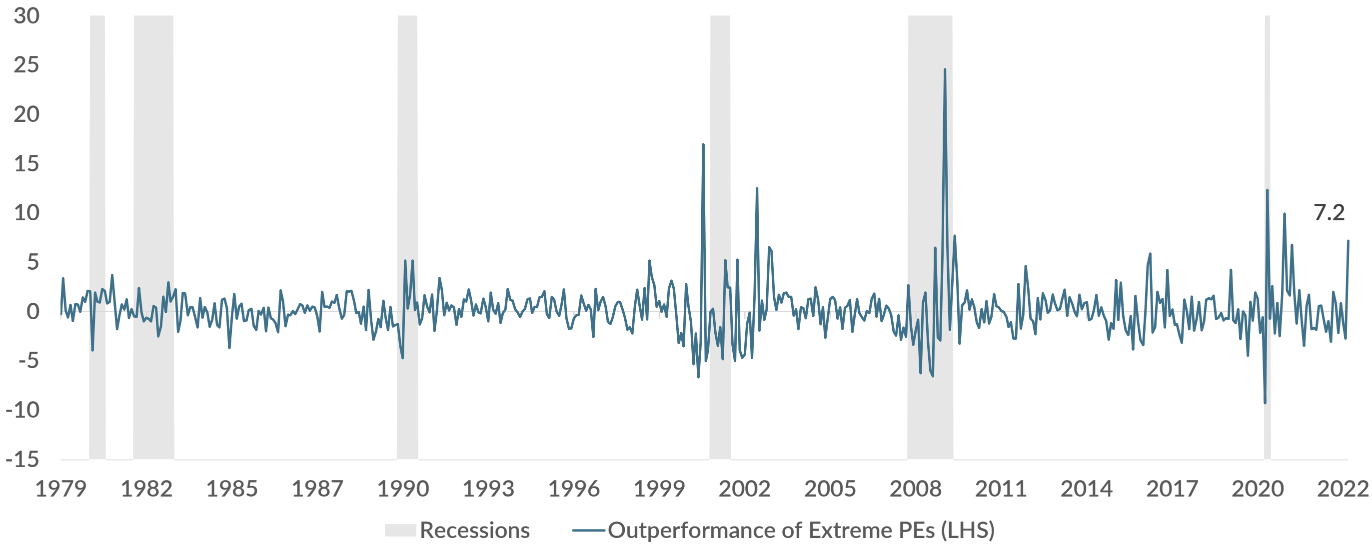
- In January, the cheapest decile of stocks ranked on price-to-earnings outperformed by 3.4% on average, while the most expensive decile outperformed by 10.9% (see chart). Outperformance of both the cheapest *and* most expensive stocks is rare and usually occurs during risk rallies in periods of economic uncertainty. The average of the top and bottom decile outperformance in January was 7.2%; we have only seen bigger moves in extreme P/Es in 2001-2002, 2009 and 2020, which were during or right after a recession.

- This phenomenon occurs in extreme "risk on" markets because both cheap and expensive stocks tend to be substantially more volatile than average stocks. In January, unlike in periods like the ones mentioned above, there did not appear to be an economic turning point. For instance, the unemployment rate was at a 53-year low of 3.4% and initial claims were under 200,000, less than one-third of prior levels.

- Meanwhile, traditional factors that do not have a risk bias (including some value factors, most fundamental factors, some earnings factors, and many technicals at this point) have underperformed. Companies missing earnings and revenue forecasts outperformed by over 5% in January (usually they underperform by over 5% per quarter), while companies beating estimates have underperformed by 2%. Quality metrics, estimate revisions and even projected growth, which tends to lead in growth-driven rallies, have been left in the dust. This leads us to conclude that January was more of a "junk" rally than one driven by improving fundamentals. Historically, these types of rallies are short-lived and provide strong entry points for active management.

Russell 1000 – Outperformance of Extreme P/Es*



Sources: Glenmede Investment Management, Compustat Snapshot, FactSet, Haver Analytics *All data is through 1/31/2023*
**Extreme P/E outperformance is measured as the average of the top and bottom decile of price to earnings using trailing 12-month earnings, minus the monthly return of the average stock in the index. This represents past performance which is not indicative of future results.*