

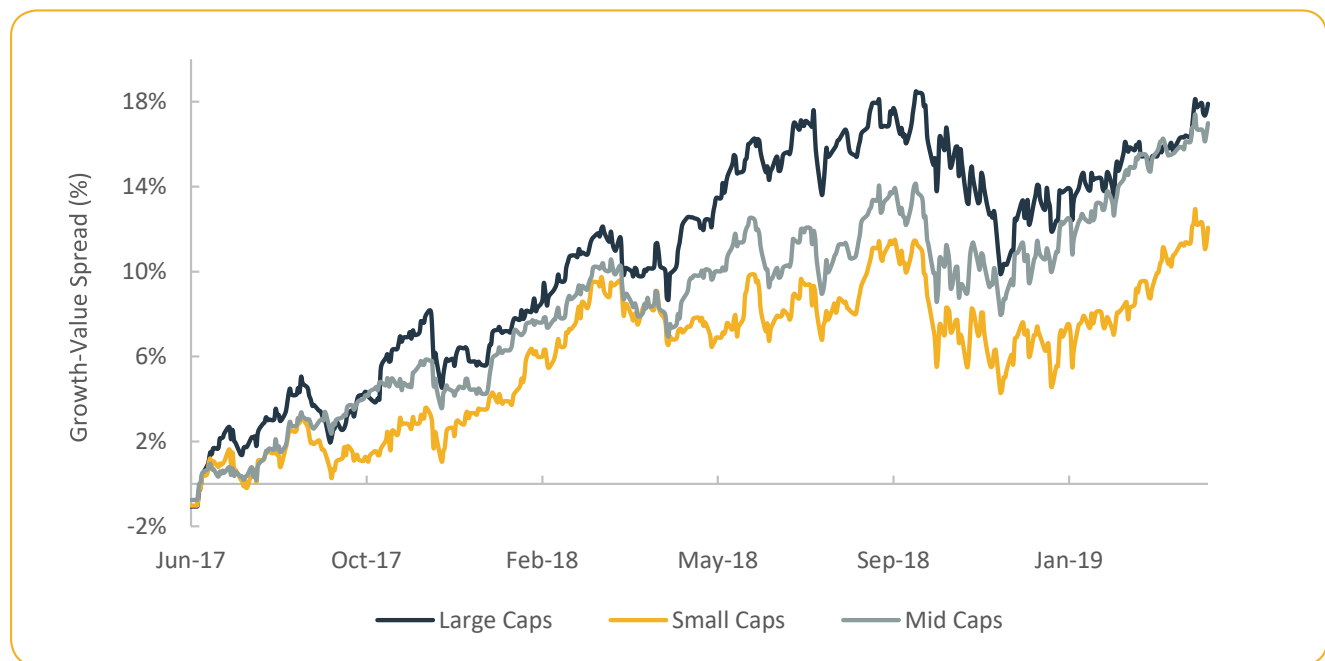
By Matt Orton

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The magnitude of outperformance of growth stocks over value seemed like an aberration in 2017. However, the growth-value spread continued to widen for most of 2018, reversing only as stocks sold off in the fourth quarter. Investors wondering how long growth could dominate the markets may now be considering an increase in exposure to value strategies. However, evidence suggests that such a pivot may be premature.

Growth-Value Spread Continues to Widen In 2019

All market capitalizations see spread increasing



The growth-value spread hit historic levels last year, prior to the selloff in the fourth quarter, and growth companies are marching higher across all market capitalizations again this year. Year-to-date returns for 2019 show growth steadily outperforming value, although value has posted respectable absolute returns.

Returns By Asset Class

2018 Returns		Value	Core	Growth	Value Gap
	Large	-8.3%	-4.8%	-1.5%	-6.8%
Mid	-12.3%	-9.1%	-4.8%	-7.5%	
Small	-12.9%	-11.0%	-9.3%	-3.6%	

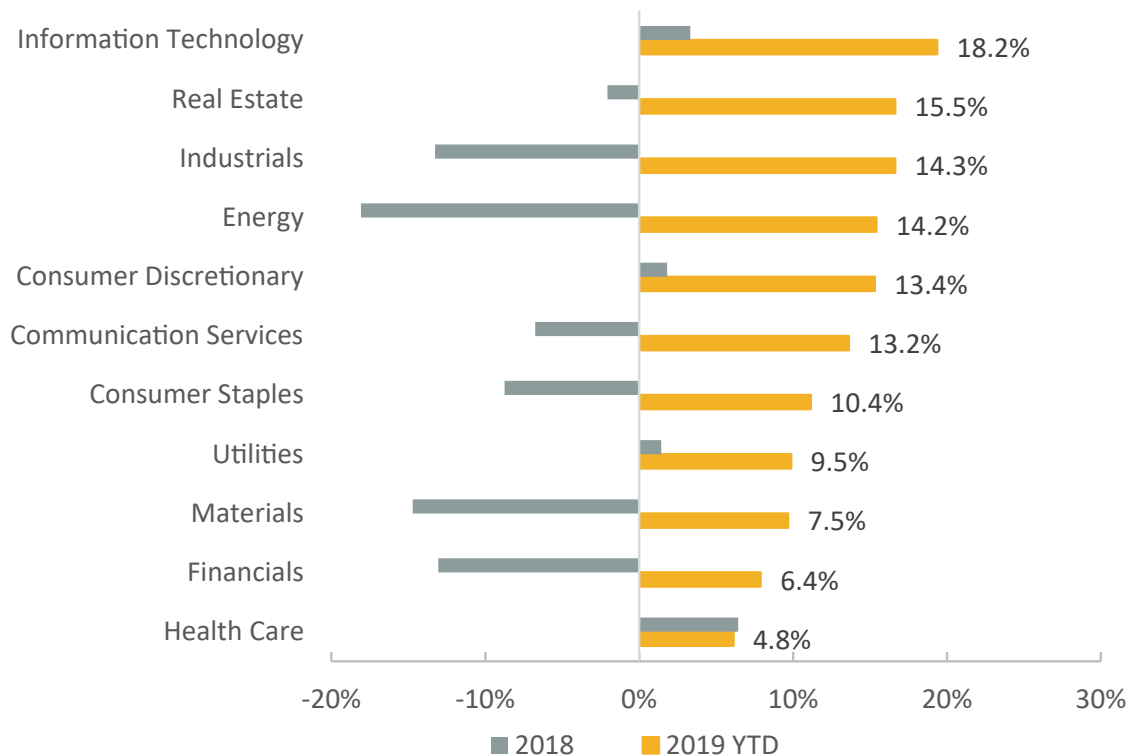
2019 YTD Returns		Value	Core	Growth	Value Gap
	Large	10.6%	12.6%	14.6%	-4.0%
Mid	12.6%	14.6%	17.4%	-4.9%	
Small	9.3%	12.0%	14.6%	-5.3%	

* Annualized Performance.

Past performance is not a guarantee of future results. All returns as of 3/22/2019. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Marketwide (Russell 3000® Index), Large Cap (Russell 1000® Index), Large Cap Value (Russell 1000® Value Index), Large Cap Growth (Russell 1000® Growth Index), Mid Value (Russell Midcap® Value Index), Mid Core (Russell Midcap® Index), Mid Growth (Russell Midcap Growth Index), Small Cap (Russell 2000® Index), Small Cap Value (Russell 2000® Value Index), and Small Cap Growth (Russell 2000® Growth Index). Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. Sources: FactSet, FTSE Russell

It is important to consider that most of the trend from growth to value was led by risk-off sectors like utilities and consumer staples. It was not led by the more cyclical value sectors like financials and energy, which can be more important to driving sustained outperformance of value over growth. Energy performance has improved in 2019 with higher oil prices, but financials are also facing headwinds from a persistently flat yield curve, which briefly inverted at the end of March.

S&P 500 Returns by Sector 2018 vs. 2019 YTD



All data as of 3/22/2019. Indices are not available for direct investment. Source: FactSet.

Growth companies are marching higher again in 2019, widening the gap relative to value across all market capitalizations and approaching the highs of last year. Information technology (IT) has helped lead this outperformance, as well as renewed strength in industrials and consumer discretionary. Despite the strong gains posted in the first quarter of 2019, particularly in IT, there is no reason to believe that this performance necessarily will stop. IT is a well-diversified sector, and companies tend to be impacted more by idiosyncratic risks – better-than-expected earnings could provide a tailwind for continued outperformance. Additionally, industrial companies are benefitting from more constructive trade dialogue with China and signs that global growth is bottoming.

Overall, while value has posted respectable absolute returns year-to-date, there remain strong tailwinds for growth to continue its outperformance.



CONCLUSION: Investors should not discount the potential of value stocks to perform – especially on an absolute basis – but it seems too soon to change focus from a growth strategy to value.



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