

September 21st, 2020

The Autumn of Big Tech's Dominance?

- New Leadership in Equities
 - Lofty valuations from a cohort of growth stocks may set up value stocks to outperform
- Equity Bargain Hunting
 - Large-cap value, small-caps and international equities may offer relative value in the current market environment
- The Three-Pillared Government Pandemic Response
 - Continued monetary, fiscal and health policy support can prime the economy for a stronger, more durable recovery

New Leadership in Equities

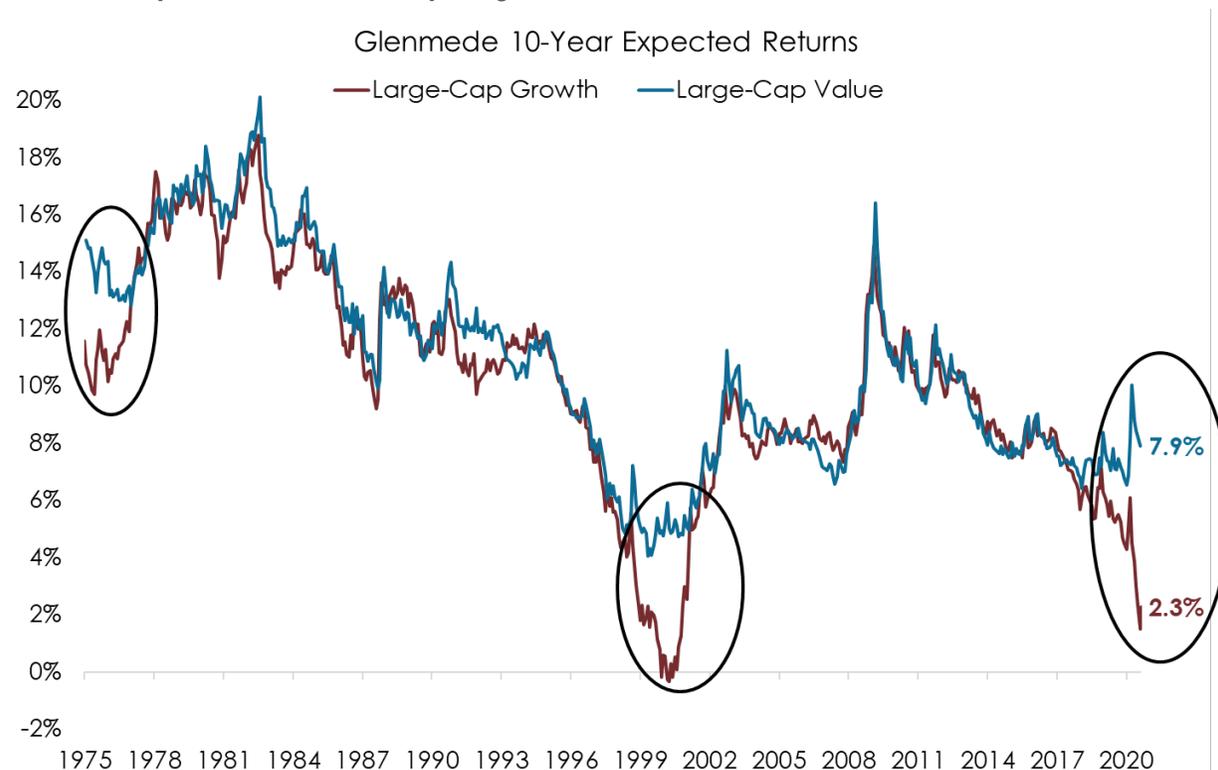
- Value Stocks Show Signs of Life.** The S&P 500 closed lower for the week, down -0.6% as of Friday's close, but still up ~3% year-to-date. There were some nascent signs of a shift in market leadership, as many of the FAAMG (Facebook, Apple, Amazon, Microsoft, Google) stocks sporting lofty valuations underperformed after marching steadily higher for much of the year. Financials and industrials were among the best relative performers after lagging behind for much of the market's recent recovery.
- Market Dominance Unmoored from Fundamentals?** The relative underperformance of the FAAMG stocks may be the beginning of a correction of valuations that have perhaps drifted too far from fundamentals. For example, these five stocks represented a whopping 24.5% of the S&P 500's market value as of the end of August. However, as a share of the index's earnings, free cash flow, sales and employees, the FAAMGs represent only 19.2%, 13.8%, 8.0% and 4.8%, respectively.
- Setting Expectations for Growth/Value.** Glenmede's proprietary Global Expected Returns model suggests the disparity in forward return expectations between large-cap value and growth stocks has recently reached extremes observed only twice before in the model's history: the Nifty Fifty of the '60s/'70s and the Tech Bubble of the late '90s. The expected return for large-cap value stocks for the next 10yrs currently sits at 7.9%, whereas their growth counterparts offer more muted 2.3% returns over the same period.

Lofty valuations from a cohort of growth stocks may set up value stocks to outperform

*Expected returns shown for periods prior to 2010 were determined via a retroactive application of Glenmede's Global Expected Returns Model.

Chart of the Week:

Expected Return Disparity Reminiscent of Prior Periods of Excess



Source: Glenmede, FactSet
 Data shown are Glenmede's proprietary estimates for 10-year expected returns. Proxy indexes for each asset class are as follows: Large-Cap Value (Russell 1000 Value Index), Large-Cap Growth (Russell 1000 Growth Index). Expected returns shown for periods prior to 2010 were determined via a retroactive application of Glenmede's Global Expected Returns Model. These figures are projections which, though arrived at in good faith, are not

Equity Bargain Hunting

- **Bargain Hunting Among Large-Cap Stocks.** While large-cap growth stocks in the U.S. appear expensive, their value counterparts are more fairly priced in comparison. For example, Glenmede estimates that growth stocks currently sit at the 94th percentile of long-term valuation, whereas value stocks only sit at the 66th percentile. As a result, investors looking for opportunities with markets near all-time highs may uncover some bargains among value stocks.
- **Small-Caps' Incoming Day in the Sun?** Only a few weeks ago, large-cap stocks were tracking new all-time highs via the S&P 500. On the other hand, small-cap stocks (as represented by the S&P 600) still remain ~25% below their own all-time highs, as they have struggled to keep up in a socially-distanced environment that has favored large technology stocks. However, as investors become more confident with the recovery trajectory of the economy and begin to visualize a sustainable path toward normalization, small-cap stocks may enjoy a return to favor.
- **The Case for International Equities.** After spending the last decade or so gathering strength, the U.S. dollar has entered a noticeable downtrend this year. For U.S. investors in overseas companies, a continued weakening dollar should boost returns, all else equal. On top of that, valuations for foreign stocks appear like bargains compared to their domestic counterparts, highlighting how important it is for U.S. investors to diversify their stock holdings on a global basis.

Large-cap value, small-caps and international equities may offer relative value in the current market environment

The Three-Pillared Government Pandemic Response

- **Fed's Forward Guidance Update.** The Federal Reserve continues to hold the course with its impressive display of monetary firepower deployed year-to-date, with no significant changes to its approach to backstop the economy and liquidity in the marketplace. At its meeting last week, the FOMC projected an overwhelming consensus that the fed funds rate will remain near zero through at least 2023, reaffirming the Fed's commitment to easy monetary policy.
- **Fiscal Stimulus Part 5?** Retail sales decelerated in August, perhaps due in part to dwindling fiscal stimulus from the federal government. As a result, investors are turning their attention back toward the stalled negotiations in Congress for another fiscal package, monitoring closely the prospects of a new round of stimulus that could inject more cash into the economy to fight the adverse effects of the pandemic through year-end and beyond.
- **Vaccine Progress Continues.** In an effort to control the spread of COVID-19, the race for a safe and effective COVID-19 vaccine is well underway. Moderna, Pfizer and AstraZeneca, the three leading candidates for a COVID-19 vaccine, are all in Phase III trials. Moderna and Pfizer have recently revealed comprehensive details of their vaccine evaluation process, a rare move likely aimed at alleviating concerns that an accelerated vaccine timeline could result in an unsafe product.

Continued monetary, fiscal and health policy support can prime the economy for a stronger, more durable recovery



Investment Strategy Insights

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