

Value – US Market says Meh!

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Here is the dictionary definition (from Oxford Languages) of the term **'Meh'**:

Exclamation - expressing a lack of interest or enthusiasm.

Adjective - uninspiring; unexceptional.

This is certainly descriptive of the disdainful treatment which the US market applies to value stocks. We will look at this a bit later, but first, a quick re-visit of last month's analysis of value vs. growth funds in Australia.

As a reminder, we found that during the COVID market meltdown, growth outperformed value in **both** the downside and recovery phases of that crisis. Here are the numbers.

The Crash

Return Comparison From 15-Nov-19 to 23-Mar-20

	Growth	Value	S&P/ASX 200
Total Return	-25.08%	-29.31%	-25.43%
Excess Return	0.36%	-3.87%	
Growth minus Value	4.23%		

The Recovery

Return Comparison From 23-Mar-20 to 31 Jul-20

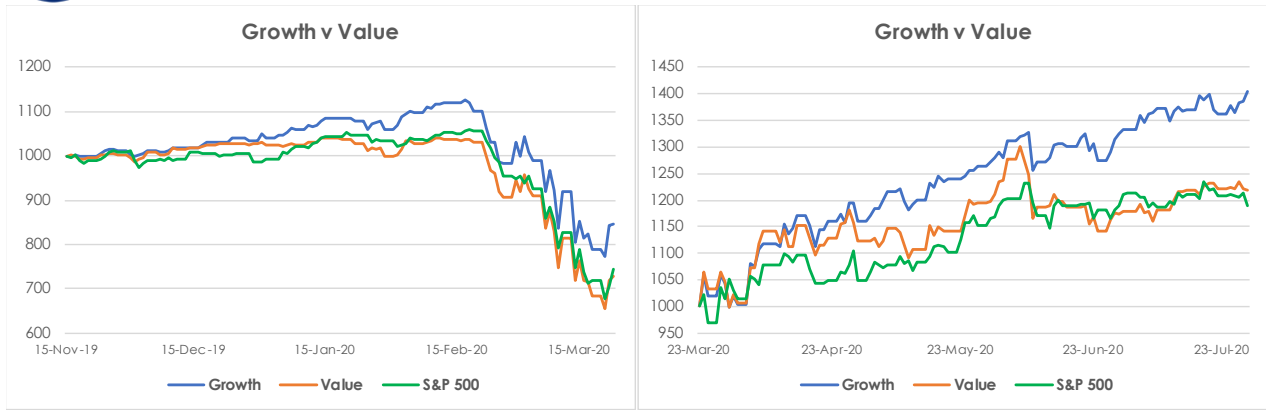
	Growth	Value	S&P/ASX 200
Total Return	24.24%	17.29%	18.85%
Excess Return	5.38%	-1.56%	
Growth minus Value	6.94%		

A massive outperformance. You may well have wondered if this pattern also occurred in the last great meltdown – the GFC. Let's take a look.

The analysis that follows uses three tradeable and highly liquid indicators:

- iShares S&P 500 Growth ETF - tracking growth stocks
- iShares S&P 500 Value ETF - tracking value stocks
- iShares Core S&P 500 ETF - tracking the overall market, the S&P 500 Index.

First, let's look at the COVID era :



		Downside		Phase	
from	to	Growth	Value	S&P 500	
15-Nov-19	23-Mar-20	-15.50%	-27.31%	-25.43%	
		Excess Return	9.94%	-1.87%	
		Growth minus Value	11.81%		

		Upside		Phase	
from	to	Growth	Value	S&P 500	
23-Mar-20	31-Jul-20	40.50%	21.89%	18.85%	
		Excess Return	21.64%	3.03%	
		Growth minus Value	18.61%		

The pattern is the same - growth outperformed value in **both** the downside and recovery phases of that crisis. But the numbers are even bigger. The outperformance is spectacular (thank you Google, Facebook, Amazon et al.)

Growth is the overwhelming mantra (and frankly, momentum has come along for the ride!) Why? Here's a theory.

Before the coronavirus pandemic there were well-established and popular growth trends tied to a variety of disruptive themes. Most, if not all, had a reliance on burgeoning technologies to propel them. The pandemic has had catastrophic consequences for economic structures and social behaviours. This has put these growth themes on steroids – accelerating them, establishing them as the “new normal” and increasing what were already strong growth rates. A small, non-exhaustive sample of such themes include:

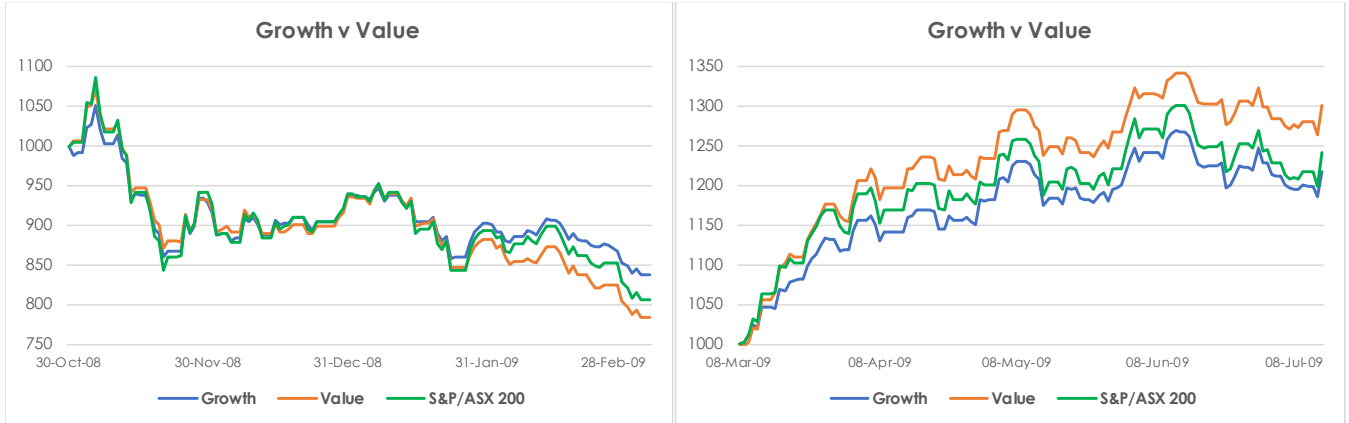
- Remote working (WFH – work from home)
- Online shopping
- Telehealth
- Digital relationships v. in-person relationships
- Privacy as a commodity rather than a right. Selling your data to **every** bidder, not just the highest (whether you like it or not, whether you know it or not).
- In-home entertainment v. real world experiences (streaming and gaming v. travel, cinema, theatre etc.)

No doubt you can think of plenty more. Why bother with value when growth is **ubiquitous** and **obvious** in these themes?

AND.... The massive growth in passive investing and ETFs creates a self-fulfilling virtuous circle for growth stocks. The fastest growing, highest-valued stocks have the greatest weights in indices and so are bought in highest volume with the money flowing into these funds. Which pushes up the values and pushes up the index weights. Rinse and repeat.

These features were either non-existent or much less dominant through the GFC cycle – so that experience was a little different.

Let's start with Australia:

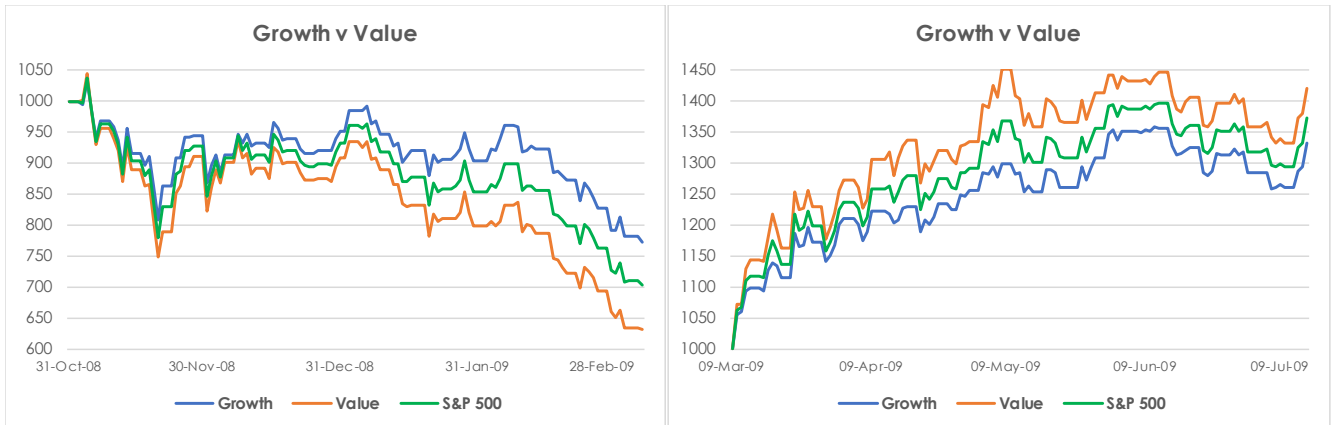


		Downside	Phase	
from	to	Growth	Value	S&P/ASX 200
30-Oct-08	8-Mar-09	-16.29%	-21.56%	-19.40%
		Excess Return	3.10%	-2.17%
		Growth minus Value	5.27%	

		Upside	Phase	
from	to	Growth	Value	S&P/ASX 200
8-Mar-09	14-Jul-09	21.83%	30.14%	24.14%
		Excess Return	-2.31%	6.00%
		Growth minus Value	-8.31%	

So growth outperformed on the downside, but **underperformed** on the upside.

...and the US:



		Downside	Phase	
from	to	Growth	Value	S&P 500
31-Oct-08	9-Mar-09	-22.82%	-36.93%	-29.76%
		Excess Return	6.94%	-7.17%
		Growth minus Value	14.11%	

		Upside	Phase	
from	to	Growth	Value	S&P 500
9-Mar-09	15-Jul-09	33.19%	42.06%	37.25%
		Excess Return	-4.06%	4.81%
		Growth minus Value	-8.87%	

Same deal - growth outperformed on the downside but underperformed on the upside. There just weren't as many, or as widely revered, poster-children for growth back then.

Coming back to our Australian growth and value fund cohorts, we did some analysis on the top 10 holdings of these funds

The table below shows the stocks popular with the growth funds and not so much (or at all!) with the value funds.

Name	Average Weight Growth	No. of Funds Growth	Growth	Average Weight Value	No. of Funds Value	Value
CSL Ltd	9.45%	15	Growth	5.43%	11	Value
Goodman Group	5.57%	6	Growth	-	-	Value
Afterpay Ltd	5.32%	2	Growth	-	-	Value
Xero Ltd	5.10%	4	Growth	-	-	Value
Nextdc Ltd	5.04%	2	Growth	-	-	Value
ResMed Inc DR	4.97%	3	Growth	-	-	Value
REA Group Ltd	4.85%	3	Growth	-	-	Value
The a2 Milk Co Ltd	4.44%	5	Growth	-	-	Value
Aristocrat Leisure Ltd	4.25%	7	Growth	-	-	Value
Total	48.98%			5.43%		

Those names should look familiar to you – they've been getting glowing reviews in the financial press and broker reports for quite some time!

One last, curious, observation: The total weight for the banks and Telstra is pretty much the same between growth and values funds. Looks like the growth funds have to get their dividend yield from somewhere.....

The Banks & Telstra

Name	Average Weight Growth	No. of Funds Growth	Growth	Average Weight Value	No. of Funds Value	Value
Commonwealth Bank of Australia	6.67%	13	Growth	6.76%	9	Value
Westpac Banking Corp	5.63%	6	Growth	5.95%	14	Value
Australia & New Zealand Banking Group Ltd	5.28%	7	Growth	5.16%	15	Value
National Australia Bank Ltd	4.97%	11	Growth	5.03%	15	Value
Telstra Corp Ltd	3.00%	2	Growth	5.04%	15	Value
Total	25.54%			27.94%		

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