

There Will Be Bumps in the Road

AUGUST 2021



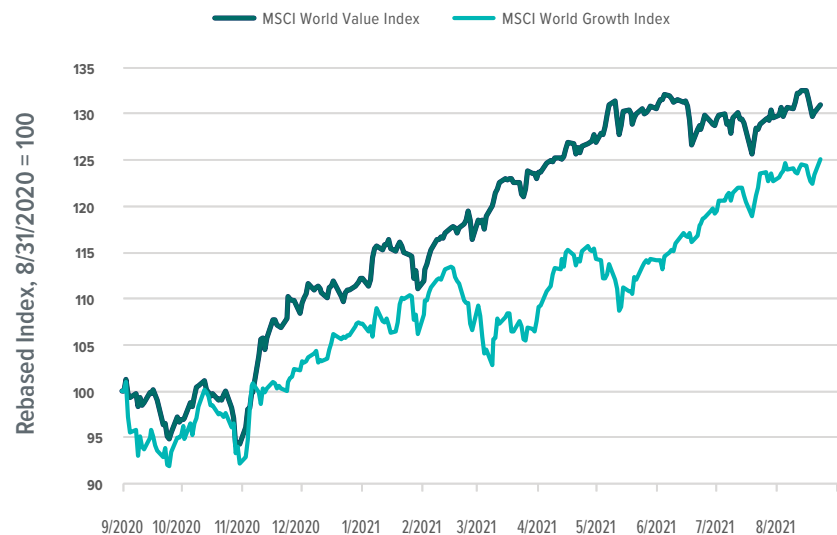
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Snapshot

- The last several months have seen growth stocks begin to claw back some relative performance against their value counterparts.
- This shift has left some investors wondering if the best has already come for value stocks.
- We believe that value still has a long way to go; short-term reversals are not uncommon during long-term upward trends.

Toward the end of 2020, after several years of spectacular performance of a select group of technology-focused companies driving growth stocks (as measured by the MSCI World Growth Index) to outpace the broader equity markets, value stocks (as measured by the MSCI World Value Index) began to take the lead as a wider group of more economically sensitive companies started to push higher. Exhibit 1 shows the steady outperformance of value stocks over growth for much of the ensuing 12 months.

Exhibit 1: Value Still Leads Over the Past Year



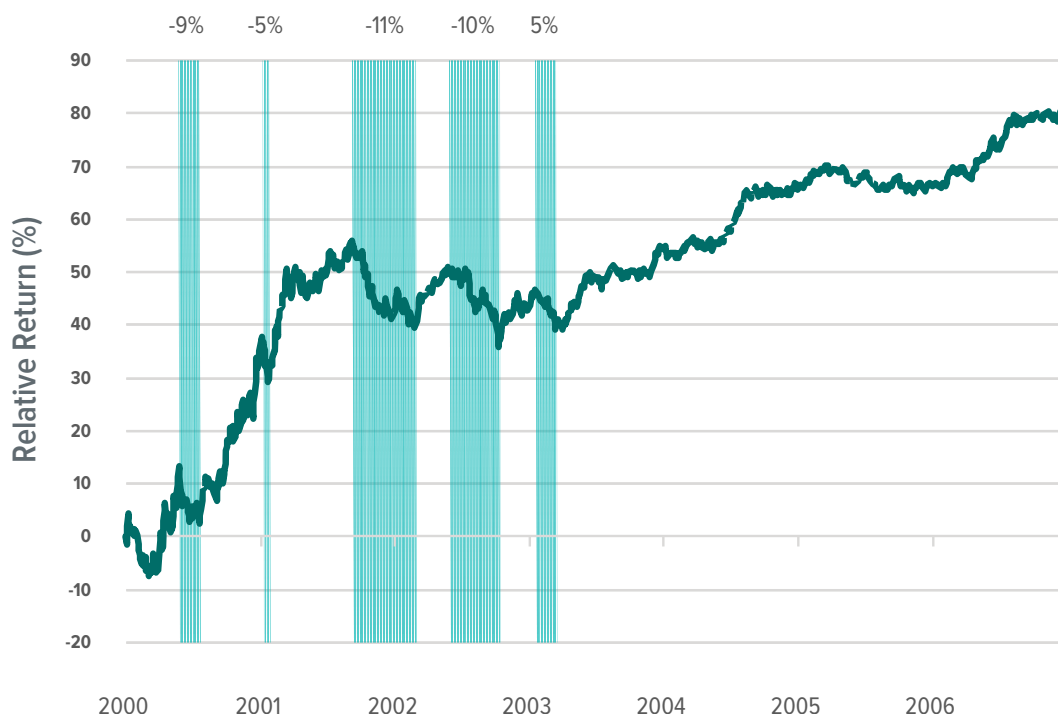
Source: Bloomberg, SEI. Data spans August 31, 2020 through August 23, 2021. Index returns are for illustrative purposes only and do not represent actual fund performance. Index returns do not reflect management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

However, as we entered the second half of 2021, growth stocks managed to claw back some relative performance against their value counterparts—leaving some investors to wonder if the best has already come for value stocks. We do not share their unease. In our view, those relative gains for growth stocks simply represent a natural blip within a long-term market cycle—which is to be expected and should not cause concern.

Why? Because the optimistic occurrences that pushed value stocks higher at the end of 2020—broadening global earnings recovery, favorable developments on the COVID-19 vaccine front, and expanded fiscal support by central banks—are not going anywhere anytime soon.

History supports this view. After the tech bubble of the late 1990s (which similarly saw growth stocks trounce their value counterparts) imploded in 2000, value trended higher over a period of about six years—even with occasional setbacks throughout that time. This is illustrated in Exhibit 2, which shows the MSCI World Value Index outperforming the MSCI World Growth Index by about 80% cumulatively from 2000 to 2006.

Exhibit 2: MSCI World Value Index relative performance over MSCI World Growth Index



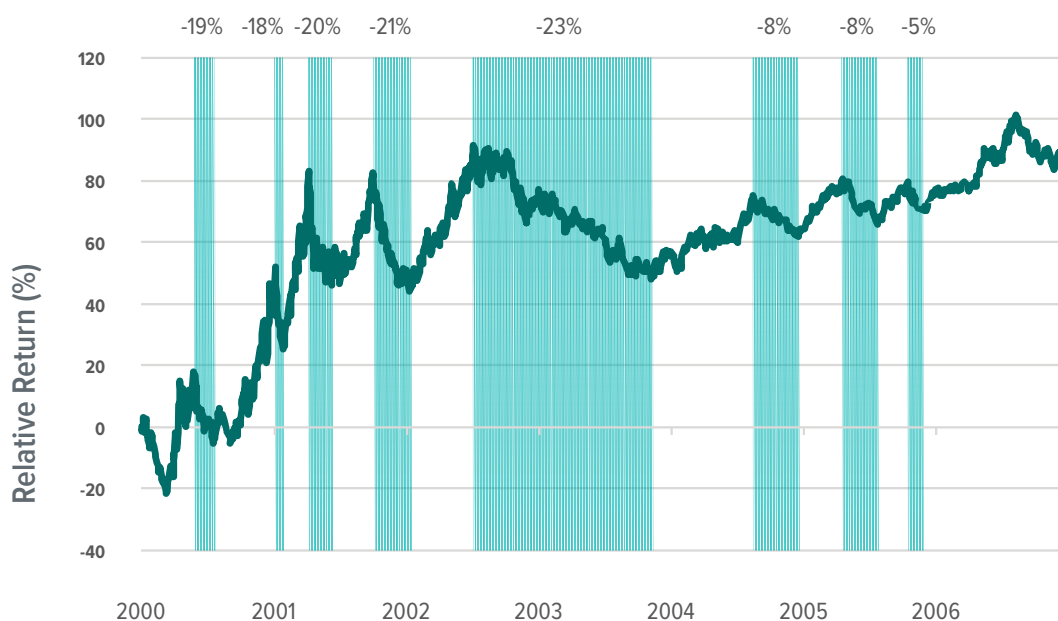
Source: Bloomberg, SEI. Data spans January 1, 2000 through December 31, 2006. Index returns are for illustrative purposes only and do not represent actual fund performance. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Investors were given reason to doubt the fundamental case for value several times throughout the long period when value steadily outgained growth. Three months after the first phase of strong outperformance—a two-year stretch that saw the MSCI World Value Index outgain the MSCI World Growth Index by about 50%—growth rebounded and gave tech shares a boost. Later, there were a handful of short-term snapbacks where the trend reversed and value gave up over 5% of its relative gains. For three of those times, growth clawed back about 10% relative to value before the value trend resumed. Looking back, we can see that investors who capitulated on their value positioning at the bottom of one of those short-term reversals may have given up on as much as half of the outperformance recorded over the entire period.

While we recognize the significant differences between the current market environment and that of 20 years ago, we believe that comparing the two periods provides useful context in understanding how a strong rotation to value leadership can play out. Most notably, it serves as a reminder that the path is often long and winding, but history shows that growth stocks will not lead the market forever.

To see this through a more powerful microscope, we can examine U.S. technology stocks during the same time period as above. Using the NASDAQ Composite Index as a proxy, Exhibit 3 illustrates that U.S. technology stocks had an even bumpier ride during a long-term trend that was favorable to the rest of the world outside U.S. tech names. This time, we see even greater short-term reversals, both in magnitude and the length of time that they persisted.

Exhibit 3: MSCI World Index relative performance over the NASDAQ Composite Index



Source: Bloomberg, SEI. Data spans January 1, 2000 through December 31, 2006. Index returns are for illustrative purposes only and do not represent actual fund performance. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

While the NASDAQ Composite Index clawed back about 23% of its underperformance at one point, the overall trend continued—with the MSCI World Index extending its lead from about 50% cumulative outperformance all the way up to almost 90%. Again, an investor would have risked forfeiting significant gains if they had allowed the brief downturns to scare them into abandoning their value positions. The lesson here? Short-term reversals are not uncommon throughout the course of a long-term trend.

Our View

In our view, it's especially important to maintain a disciplined investing approach when market environments feature unexpected (and unwelcome) setbacks. As such, we believe that the most effective investing approaches are those that focus on building diversified portfolios that are designed to strive for consistent returns over a specific time horizon in accordance with an investor's risk tolerance.

While it's understandable that one may want to monitor daily events, it's crucial to bear in mind that daily, weekly, monthly, and even quarterly market movements are often relatively inconsequential for a portfolio that has a time horizon of more than a few years. If investment time horizons are measured in years, we do not think it does any good to worry about day-to-day reports of market anxieties. Instead, we believe that an investor who maintains a diversified portfolio and keeps a level head as a crisis runs its course should be better served in the long run.

Glossary

Bull market refers to a period of steadily increasing stock prices.

Growth stocks exhibit earnings growth above that of the broader market.

Tech bubble refers to a stock market bubble caused by excessive speculation in Internet-related companies in the late 1990s.

Value stocks are those that are considered to be cheap and are trading for less than they are worth.

Index Definitions

MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of large- and mid-cap companies in developed markets.

MSCI World Growth Index measures the performance of large- and mid-cap stocks exhibiting overall growth style characteristics in developed markets.

MSCI World Value Index measures the performance of large- and mid-cap stocks exhibiting overall value style characteristics in developed markets.

NASDAQ Composite Index measures the performance of stocks listed on the NASDAQ stock exchange. It is generally considered a stand-in for technology sector performance due to its heavy weighting in technology.

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