

# Cash Flow and Carey



**Robert Carey, CFA**  
Chief Market Strategist

2/23/23

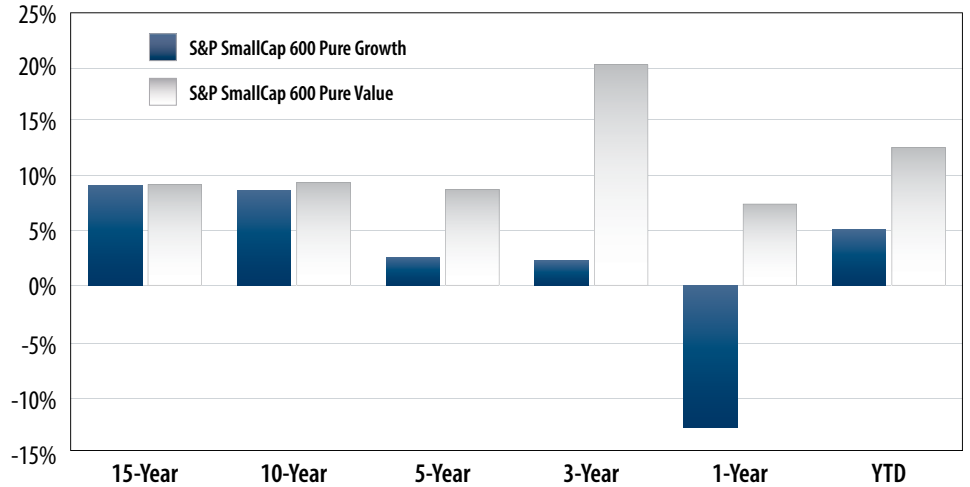
This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The S&P SmallCap 600 Index is an unmanaged index of 600 companies used to measure small-cap U.S. stock market performance. The S&P SmallCap 600 Pure Growth Index is a style-concentrated index designed to track the performance of stocks that exhibit the strongest growth characteristics based on three factors: sales growth, the ratio of earnings-change to price, and momentum. It includes only those components of the parent index that exhibit strong growth characteristics, and weights them by growth score. Constituents are drawn from the S&P SmallCap 600 Index. The S&P SmallCap 600 Pure Value Index is a style-concentrated index designed to track the performance of stocks that exhibit the strongest value characteristics based on three factors: the ratios of book value, earnings, and sales to price. It includes only those components of the parent index that exhibit strong value characteristics, and weights them by value score. The respective S&P SmallCap 600 Sector Indices are capitalization-weighted and comprised of S&P SmallCap 600 constituents representing a specific sector.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial advisors are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

## Growth vs. Value Investing (Small-Caps)

### Growth vs. Value Investing

YTD, 1-Year and Average Annualized Total Returns thru 2/21/23



Source: Bloomberg. Past Performance is no guarantee of future results.

### View from the Observation Deck

We update this post on small-capitalization (cap) stocks every now and then so that investors can see which of the two styles (growth or value) are delivering the better results.

**The S&P SmallCap 600 Pure Value Index outperformed its growth counterpart in each of the six periods featured in today's chart.**

**As of January 31, 2023, the S&P SmallCap 600 Pure Value Index's largest sector was Consumer Discretionary at 28.9%, while the S&P SmallCap 600 Growth Index's largest sector was Health Care at 20.07%.**

Year-to-date thru February 21, 2023, the S&P SmallCap 600 Consumer Discretionary Index and the S&P SmallCap 600 Health Care Index posted total returns of 15.46% and 4.49%, respectively. For comparative purposes, the S&P SmallCap 600 Index was up 7.66% on a total return basis over the same period. The S&P 600 SmallCap Pure Value Index had a 4.9% weighting in the Health Care sector (the Growth Index's largest sector) and the S&P 600 Pure Growth Index had just a 7.5% weighting in the Consumer Discretionary sector (the Value Index's largest sector) as of January 31, 2023.

**The total returns in today's chart, thru February 21, 2023 were as follows (Pure Growth vs. Pure Value):**

<b>15-year average annualized</b> (9.09% vs. 9.14%)	<b>5-year average annualized</b> (2.56% vs. 8.67%)	<b>1-year</b> (-12.91% vs. 7.37%)
<b>10-year average annualized</b> (8.58% vs. 9.33%)	<b>3-year average annualized</b> (2.20% vs. 20.01%)	<b>YTD</b> (5.03% vs. 12.48%)

**The last time that we wrote about this topic was on May 26, 2022. [Click Here](#) to view that post.**

In it, we wrote: "at a combined weighting of 22.2%, the S&P SmallCap 600 Pure Value Index's exposure to Energy and Materials was significantly higher than the 5.0% combined weighting in the S&P SmallCap 600 Pure Growth Index as of 4/29/22". Over the 1-year period ended February 21, 2023, the S&P SmallCap 600 Energy Index and the S&P SmallCap 600 Materials Index were the first and fifth-best performers, posting total returns of 24.59% and 5.20%, respectively.

### Takeaway

As the total returns in today's chart illustrate, the S&P SmallCap 600 Pure Value Index (Pure Value Index) has enjoyed higher total returns than the S&P SmallCap 600 Pure Growth Index (Pure Growth Index) in each of the time frames presented. In our view, the more recent performance delta can be explained, in part, by sector weightings. For example, propelled by an overweight in Consumer Discretionary Stocks, (the second-best performing sector in the S&P SmallCap 600 Index YTD) the Pure Value Index posted a YTD total return of more than double that of the Pure Growth Index. Similarly, over the 1-year period, the Pure Value Index's higher exposure to the Energy and Materials sectors appears to have provided ballast during a period where the broader S&P SmallCap 600 Index posted a total return of -2.62%. While sector weightings can change, they may provide unique insight into recent performance trends, in our view.