

# Cash Flow and Carey



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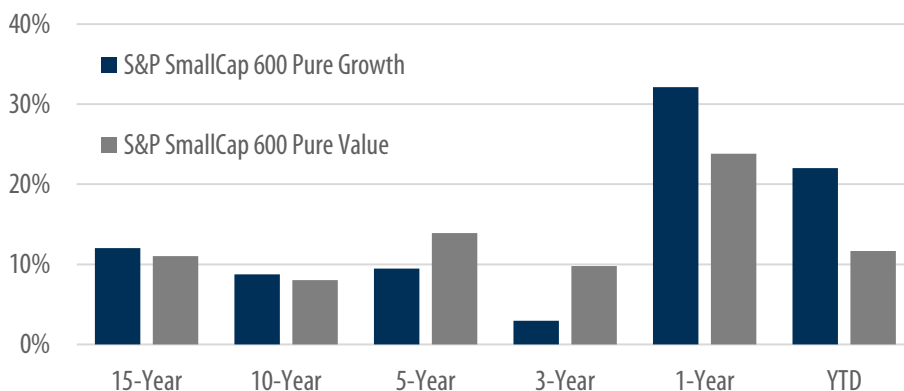
12/5/24

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.

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

**Growth vs. Value Investing** (YTD, 1-Year and Average Annualized Total Returns thru 12/3/24)



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. [Click Here](#) to view our last post on this topic.

**The S&P SmallCap 600 Pure Growth Index (Pure Growth Index) outperformed the S&P SmallCap 600 Pure Value Index (Pure Value Index) in four of the six time frames covered by today's chart, with the 1-year and YTD returns reflecting a widening advantage for the Pure Growth Index.**

As we see it, deteriorating earnings expectations are likely a key catalyst behind the recent total return difference between these Indices. Bloomberg data reveals that the Pure Value Index experienced year-over-year (y-o-y) earnings growth in just one of that past eight quarters. The third quarter of this year was particularly trying for the Pure Value Index which saw earnings growth contract by 38.27% y-o-y. By contrast, the companies that comprise the Pure Growth Index experienced y-o-y earnings growth in four of the past eight quarters, with earnings growth surging 22.90% y-o-y in Q3'24.

**The three top performing sectors in the broader S&P SmallCap 600 Index and their total returns (YTD thru 12/3) were as follows: Financials (28.54%), Industrials (27.49%), and Communication Services (26.79%).**

**As of 11/29/24, the largest sector in the Pure Growth Index was Consumer Discretionary at 18.8%. The largest sector in the Pure Value Index was Financials at 22.8% as of the same date.**

**The total returns in today's chart, thru 12/3/24, were as follows (Pure Growth vs. Pure Value):**

- 15-year average annualized (12.04% vs. 11.04%)
- 10-year average annualized (8.75% vs. 8.02%)
- 5-year average annualized (9.46% vs. 13.91%)
- 3-year average annualized (2.97% vs. 9.78%)
- 1-year (32.14% vs. 23.81%)
- YTD (22.03% vs. 11.68%)

### Takeaway

As today's chart illustrates, the Pure Growth Index enjoyed substantially higher total returns than the Pure Value Index over the trailing 12-month and YTD time frames (thru 12/3/24). Conversely, the Pure Value Index had the better showing over the 3-year and 5-year time periods. The last time we posted about this topic, we presented the idea that Price to Earnings (P/E) ratios offered insight into the Pure Growth Index's recent outperformance. In our view, that estimation holds. At 16.62, the current P/E ratio (as of 12/4/24) for the Pure Growth Index sits well below its 10-year annual average of 23.16. By comparison, the current P/E for the Pure Value Index surged to 29.24 as of 12/4/24, up from 17.34 when we last posted on this topic, and well-above its 10-year annual average of 28.51. While a portion of that P/E expansion can be attributed to increasing valuations, the impact of stagnating earnings growth cannot be overstated, in our opinion. We look forward to providing an update to this topic in the New Year.