

Cash Flow and Carey



Robert Carey, CFA
Chief Market Strategist



Peter Leonteos
Market Strategist

7/16/24

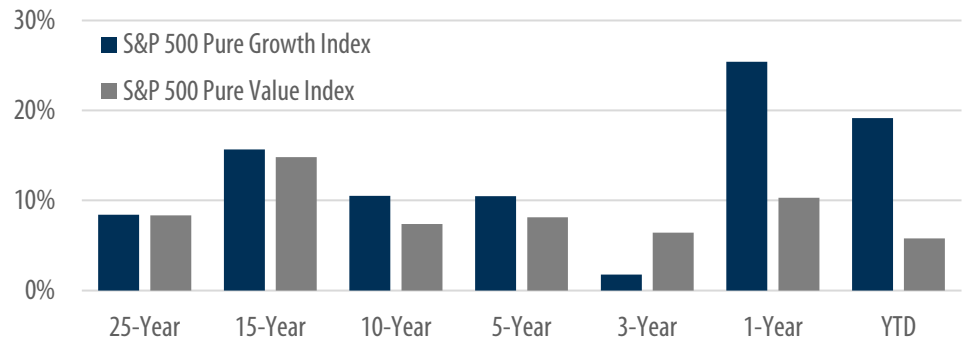
This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. The S&P 500 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 500 Index. The S&P 500 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.

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Growth vs. Value Investing

Growth vs. Value Investing (YTD, 1-Year and Average Annualized Total Returns thru 7/12/24)



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

View from the Observation Deck

We update this post every few months so that investors can see which of the two styles (growth or value) are delivering the better results. [Click here](#) to see our last post on this topic.

- We have often noted that value stocks tend to outperform growth stocks when the yield on the benchmark U.S. 10-year Treasury note (T-note) rises and underperform them when the yield on the 10-year T-note falls. The yield on the 10-year T-note rose by 282 basis points (bps) over the 3-year period ended 7/12/24. For comparison, the yield on the 10-year T-note declined by 154 bps over the 25-year period ended the same date.
- The most recent increase in the federal funds target rate occurred on 7/26/23. Since then, the consensus has been that the Federal Reserve (“Fed”) would cut the federal funds target rate multiple times in 2024; a scenario that has yet to occur. Perhaps unsurprisingly, the S&P 500 Pure Growth Index (Pure Growth Index) outperformed the S&P 500 Pure Value Index (Pure Value Index) by a significant margin since these rate cut forecasts gained prominence.
- The total returns in today’s chart are as follows (Pure Growth vs. Pure Value):
 - 25-year avg. annual (8.42% vs 8.33%)**
 - 15-year avg. annual (15.67% vs. 14.81%)**
 - 10-year avg. annual (10.51% vs. 7.37%)**
 - 5-year avg. annual (10.48% vs. 8.13%)**
 - 3-year avg. annual (1.75% vs. 6.43%)**
 - 1-year (25.39% vs. 10.28%)**
 - YTD (19.14% vs. 5.78%)**
- On 6/28/24, Information Technology stocks accounted for 41.3% of the weight of the Pure Growth Index, according to S&P Dow Jones Indices. At 30.9%, Financials made up the largest weighting in the Pure Value Index as of the same date.
- With a YTD total return of 33.89% (thru 7/12/24), Information Technology was the top performer of the 11 major sectors in the S&P 500 Index. By comparison, Financials posted a YTD total return of 13.49%.
- The top three performing S&P 500 Index sectors and their YTD total returns (through 7/12/24) are as follows: Information Technology (33.89%); Communication Services (27.13%); and Utilities (14.38%). As of 6/28/24 those three sectors comprised a combined 49.8% and 10.7% of the total weighting of the Pure Growth and Pure Value Indices, respectively.

Takeaway

The Pure Growth Index outperformed the Pure Value Index in six of the seven time periods presented in today’s chart. While this blog post does not account for changes to index constituents over time, it is notable that Pure Growth’s most recent outperformance appears to be driven largely by sector allocation. The three top performing S&P 500 sectors YTD account for 49.8% of the weight of the Pure Growth Index but just 10.7% of the weight of the Pure Value Index. That said, current multiples may signal opportunity ahead for value-oriented investors. The Pure Value Index had a Price to Earnings (P/E) ratio of 10.48 on 7/15/24, well-below its 20-year average of 18.41. By comparison, the Pure Growth Index had a P/E ratio of 26.38 at market close on the same date, above its 20-year average of 22.31. Are multiple rate cuts already priced in the Pure Growth Index, or is there more room to run? Stay tuned!