Disruptors Stir Up Competition and Challenge Markets
Their momentum may reveal strategic investing opportunities.

The full story lies beneath the surface.

Industry challengers are sweeping the investment landscape, bringing an era of secular change

Technological advancements and seismic shifts in the way consumers select everyday goods and services are transforming corporate America. This phenomenon is known as secular change—new, structural shifts that carry long-term implications for investors.

The leaders in these emerging sectors are driving this trend, as brands capture consumers’ attention and transform the way that products or services are offered, purchased, and consumed.

Take one prominent example of a secular challenger: Amazon. In the last decade, its impact has reached far beyond the retail industry, dramatically changing the way companies operate. Ground transportation and Web services are just two sectors that have been affected by Amazon’s presence.

Another prime example is energy, where markets are being disrupted by the crosscurrents of shale fracking and the increased competitiveness of solar and wind. These pressures are proving difficult for even established leaders to outmaneuver. And that leads to secular risk—when an over-leveraged company with an antiquated business model faces new and relentless challenges.

Recognizable challengers to the status quo

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What does this mean for investors?

Innovation is changing growth and value universes. The value space faces challenges of little development or growth that could be difficult to sustain moving forward. T. Rowe Price experts have been tracking secular factors for several decades. They’ve found that disruption is materially higher today than it was 20 or even 10 years ago. Their analysis indicates that 31% of the U.S. stock market and about 35% of revenue as of September 30, 2018 for the companies in the S&P 500 Index is being impacted by some level of secular change. The effects of this shift are many, including a reduction in the number of attractive industries and companies. But while disruption undoubtedly creates more volatility, it can also yield strategic opportunities, including:

- The opportunity to purchase attractive assets at temporarily depressed prices;
- Growth stocks with lower exposure to cyclical sectors; and
- Higher valuations for companies that can avoid secular risk.

Our considerations for managing secular risk

1. Actively navigate the situation with a long-term perspective.
2. Look to in-depth research and solid fundamental analysis to uncover opportunities.
3. Seek to identify the next round of secularly challenged stocks before the market does.

We believe the emergence of secular risk has the potential to benefit active investors—and pose a significant challenge for passive investing over the next five to 10 years. It also highlights the importance of long-term investing.

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Historical Growth/Value Performance Cycle

As of December 31, 2018

Large-Cap Value/Growth

Past performance is no guarantee of future results.

Sources: June 1926 – December 1978: Fama/French Benchmark Portfolios representing “Big Value” and “Big Growth.” The Fama/French Benchmark Portfolios are rebalanced quarterly using two independent sorts, on size and book to market. The size breakpoint for “Big” versus “Small” is the median NYSE market equity. The growth/value breakpoint is the 30th and 70th NYSE percentiles of book-to-market ratios. January 1979 – present: Russell, 1000 Value and Growth Index monthly total returns (see Additional Disclosures).

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Value Relative Growth 10 Year

Annualized Return Difference (V - G)

10-Year Periods (Rolling Monthly)

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Contact your financial advisor to learn how these risks can affect your investment portfolio.

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