T.Rowe Price®
INVEST WITH CONFIDENCE

Portfolio Construction Insight

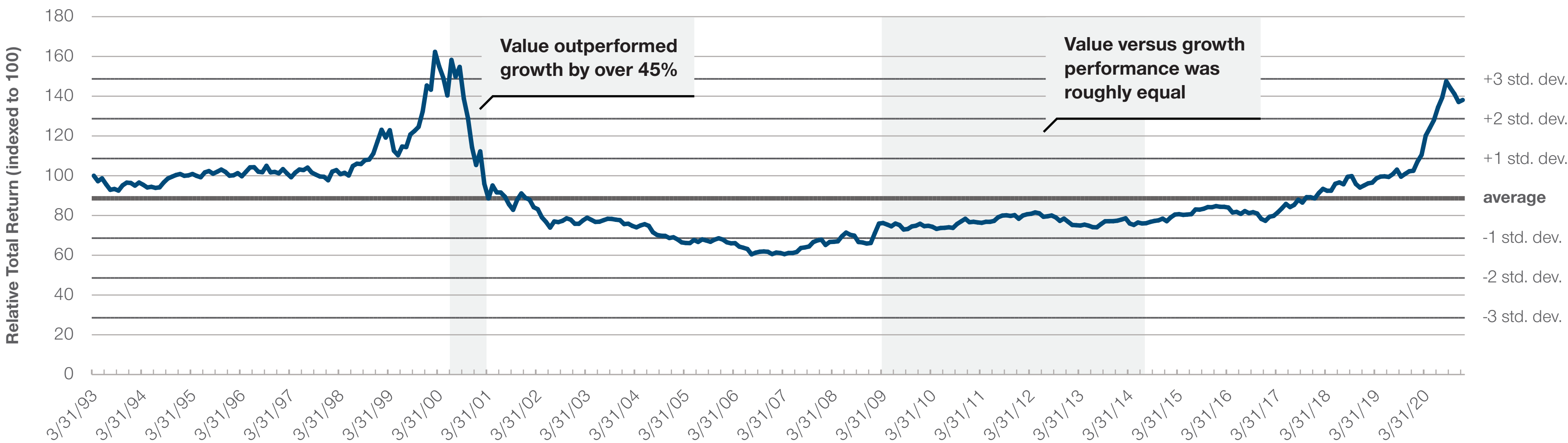
Did you miss the rotation from growth to value?

Markets entered 2021 amid widespread optimism as public health officials gained access to multiple vaccines to fight the global coronavirus pandemic. Against this backdrop, now may be a good time to think about positioning investment portfolios for a post-pandemic economy. Looking at Figure 1, the relative returns for large-cap U.S. growth stocks versus their value counterparts from April 1993 through December 2020 reveal some interesting observations about growth/value performance cycles.

Growth/value performance cycles have tended to vary in duration and intensity.

(Fig. 1) Total Return: Russell 1000 Growth Index versus Russell 1000 Value Index from April 1993 through December 2020.

As of December 31, 2020



Past performance is not a reliable indicator of future performance. Index performance is for illustrative purposes only and is not indicative of any specific investment. Investors cannot invest directly in an index.
Sources: T. Rowe Price analysis using data from FactSet Research Systems, Inc; Russell Investment Group. Please see Additional Disclosures for more information.

- **Performance cycles tended to persist for several years.**
  From June 1926 – December 2020, growth and value cycles averaged 45 and 64 months, respectively. The longest growth cycle was 173 months.
- **Performance differentials have been insignificant at times…**
  From April 2009 through July 2014, growth and value performance was roughly equal despite a turbulent economic backdrop.
- **…but style regime changes can be abrupt, especially at extremes.**
  In the relatively brief nine-month period from July 2000 through March 2001, value outperformed growth by over 45%.
- **The current backdrop appears extreme.**
  Growth outperformance neared three standard deviations late in 2020 and exceeded two standard deviations after a fourth-quarter value rally.

Are your portfolios positioned for a value rotation?

Proprietary data gathered by T. Rowe Price reveal that many investor portfolios have increased their growth stock exposure at the expense of value. As shown in Figure 2, growth allocations in a representative portfolio were 16 percentage points above value at the end of 2020 versus a six-point tilt toward growth just three years ago. As the outlook for value brightens in 2021, a reassessment of investment style allocations may be in order.

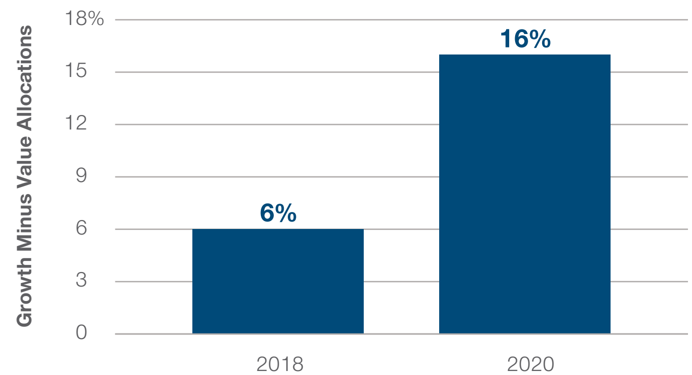
With evidence suggesting that a rotation to value could continue and that overweights to growth persist in many client portfolios, we believe investors should take a closer look at their style allocations and consider shifting back toward a more neutral growth/value position.

TALK TO A FINANCIAL PROFESSIONAL TODAY.

Investment goals and risk tolerance are different for every investor. Consult a financial professional to help ensure your investments are aligned with your needs.

Many investors significantly increased growth allocations at the expense of value allocations.

(Fig. 2) Growth minus value allocations, 2018 versus 2020



Sources: T. Rowe Price Client Investment Platform (CIP); Morningstar Direct.

Based on moderate-risk model allocations and underlying fund exposures as of 12/31/2020. The sample includes 804 total models.

Additional Disclosures

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