



ASSET ALLOCATION INSIGHTS

Growth Versus Value: A Balanced View

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KEY INSIGHTS

- Although the performance of growth and value stocks has been widely bifurcated, we maintain a balanced view.
- Trends driving growth outperformance may endure long term, while value stocks could offer more upside potential near term should economic activity normalize.

As summer draws to an end, stock performance has been widely bifurcated on a growth-versus-value basis (see performance chart below). Given the large divergence, value seems to offer more near-term upside potential than growth—particularly if the development of a coronavirus vaccine normalizes economic activity.

Although value stocks could narrow the performance gap considerably, we remain cautious. In our view, the long-term trends driving the outperformance of growth stocks relative to value will endure in a post-pandemic world and may strengthen further.

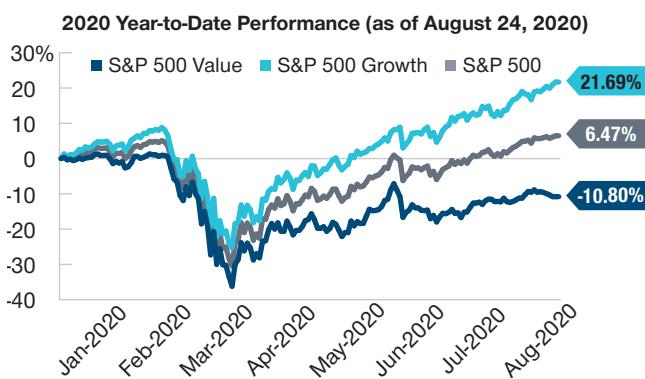
One notable trend is the shift from brick-and-mortar retail to online. We believe the magnitude and long-term implications of this shift may be underappreciated, and we do not see a catalyst for a sustained reversal. Between 2009 and 2019, the share of online commerce as a percentage of all retail sales increased from 6% to 11%. By April 2020, that percentage leapt to 18%, exceeding the total increase experienced over the previous decade.

Although the trend has reversed somewhat with the easing of lockdown measures, the move toward e-commerce—which was already in progress—will likely continue. Furthermore, while the power of this trend is already largely reflected in the market, online penetration remains relatively low, with significant room for increased adoption. Similarly, the ongoing shifts in media consumption and to cloud software are also likely to persist.

Given these trends and the expectation that the financials sector—a meaningful segment of value stocks—will be burdened by low interest rates for a while, our outlook for growth and value is balanced, despite value's large underperformance year-to-date.

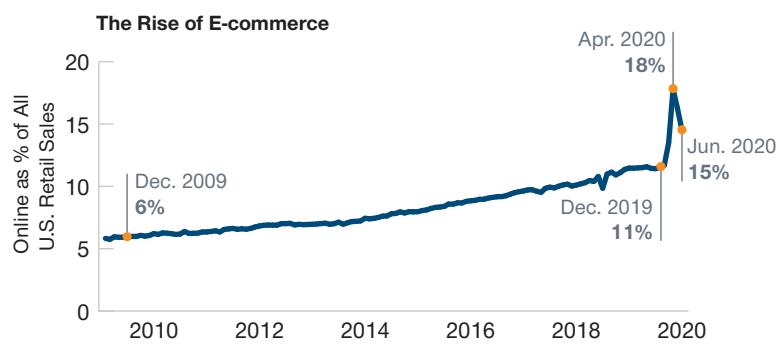
Evaluating Growth and Value Stocks

Stock performance has been bifurcated, with secular trends driving growth outperformance



Past performance is not a reliable indicator of future performance.

Sources: Standard & Poor's (See Additional Disclosure) and U.S. Census Bureau/Haver Analytics. T. Rowe Price analysis using data from FactSet Research Systems Inc. All rights reserved.



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