



ASSET ALLOCATION INSIGHTS

Leaning Into Value

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KEY INSIGHTS

- We believe now is a good time for investors to consider a tilt toward value stocks, given promising vaccine news.
- Despite potential near-term volatility, value stocks could benefit from pent-up demand as life normalizes post-pandemic.

During the pandemic, value stocks—which are typically more sensitive to macroeconomics and interest rates—have significantly underperformed growth stocks. Technology companies, well suited for the stay-at-home world, dominate growth stocks and have driven market performance. However, promising news in recent weeks regarding multiple COVID-19 vaccine trials has led to a rally in value stocks, and we believe that now is a good time for investors to consider tilting their portfolios toward value.

For a variety of reasons, some investors may be apprehensive about value. Most notable is the fear that surging coronavirus cases in the U.S. could endanger the economic recovery.

While the virus spread is a valid concern that could cause uncertainty and volatility in the near term, the development of vaccines could, in our view, normalize life in six to 12 months, dramatically improving the outlook for many companies impaired by the pandemic.

Given the recent rally in value stocks, investors might question the timing of a shift toward value. Although stocks hardest hit by the pandemic gained meaningfully on the day the trial results for the first vaccine were announced, we believe there is ample room for further improvement. As indicated in the chart below, value stocks still trail growth stocks by a significant margin in 2020 at the time of this writing.

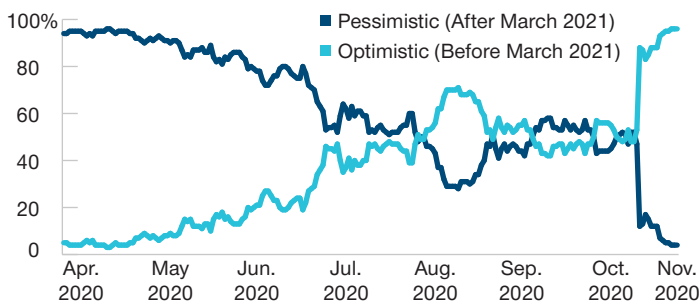
Additionally, investors may not fully appreciate how impactful the vaccine distribution could be. Spending habits have been significantly muted during the pandemic, causing an increase in saving for many consumers who will be in a position to dramatically increase spending in 2021. This potential release of pent-up demand—primarily aimed at areas that were largely abandoned during the pandemic—could, in our view, result in a very favorable environment for beaten-down value stocks.

Evaluating a Tilt to Value

Is it time to consider value stocks?

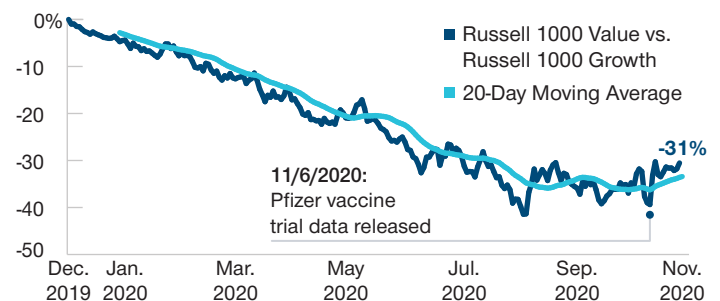
Daily Poll* of “Superforecasters”

April 24, 2020 to November 23, 2020.



Is the Tide Turning?

Returns as of January 1, 2020 to November 23, 2020.



Past performance is not a reliable indicator of future performance.

Sources: (Left chart) Good Judgment, Inc. (Right chart) T. Rowe Price analysis using data from FactSet Research Systems Inc. All rights reserved; Russell. See Additional Disclosures.

*Poll tracks: When will enough doses of FDA-approved COVID-19 vaccine(s) to inoculate 25 million people be distributed in the United States? Optimistic is defined as before 3/31/2021. Pessimistic is defined as the cumulative of probabilities after 3/31/2021.

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