



ASSET ALLOCATION INSIGHTS

U.S. Growth Outperformance Likely to Continue

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KEY INSIGHTS

- Despite a record span of dominance by U.S. growth stocks, we believe U.S. value stocks lack a durable catalyst to outperform.
- In our view, structural factors that have underpinned the U.S. growth rally are unlikely to fade in the near term.

Since the 2008–2009 global financial crisis, U.S. growth stocks have outpaced their value peers. Improving market sentiment and global economic outlook—helped, in part, by the Fed's 2019 “midcycle adjustment” and easing U.S.-China trade tensions—have prompted investors to ask if it is time to shift to a value overweight. We say, “not yet.”

Supportive factors for cyclical stocks within the value sector have not made a “round trip.” While the Fed has cut interest rates, additional reductions are not expected. Further, the

“phase one” trade deal means a pause in escalation, not a reversal of tariffs. Therefore, we believe that the magnitude of value’s advance is likely limited.

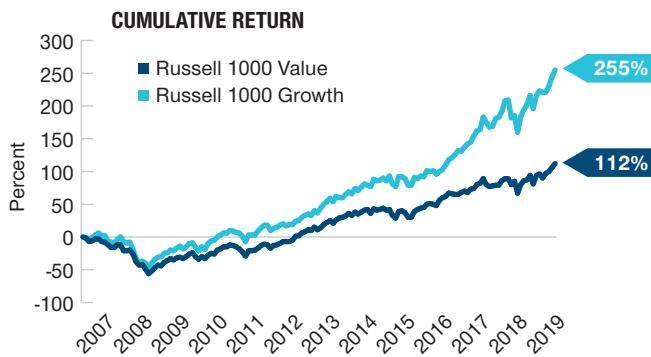
Meanwhile, we see no signs that the structural tailwinds that have driven the U.S. growth rally are abating. Innovative growth companies are leveraging automation for efficiency and benefiting from rapid technology adoption globally. Disruption in retail, media, and enterprise technology continues to shift massive market share from entrenched players to innovators.

U.S. growth valuations may periodically seem extended, while investors question the durability of this growth cycle. However, we believe that solid fundamentals—including improvements in cash flow, revenues, earnings, and profit margins—continue to underpin the rally. In our view, until these structural tailwinds have faded, a meaningful shift back to U.S. value leadership is unlikely in the near term.

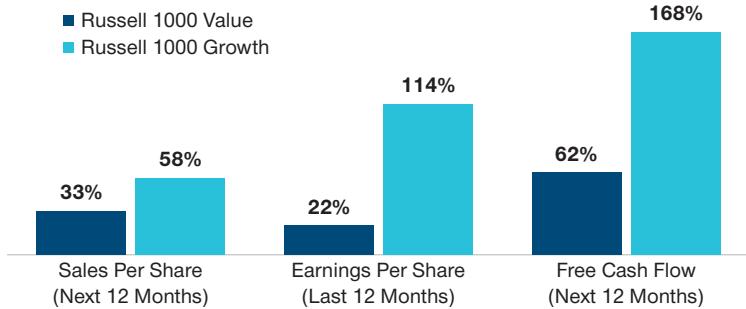
Fundamentals Have Supported Superior Performance by Growth Stocks

Growth vs. Value Fundamentals

June 1, 2007, Through December 31, 2019



CUMULATIVE CHANGE



Past performance is not a reliable indicator of future performance.

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