



ASSET ALLOCATION INSIGHTS

U.S. Growth Outperformance Likely to Continue

February 2020



Tim Murray, CFA
Capital Markets Strategist,
Multi-Asset Division

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.

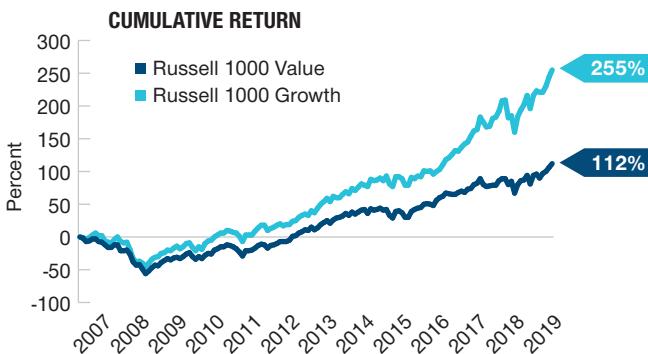
Meanwhile, we see no signs that the structural tailwinds that have driven the U.S. growth rally are abating. Innovative growth companies are leveraging automation for efficiency and benefiting from rapid technology adoption globally. Disruption in retail, media, and enterprise technology continues to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

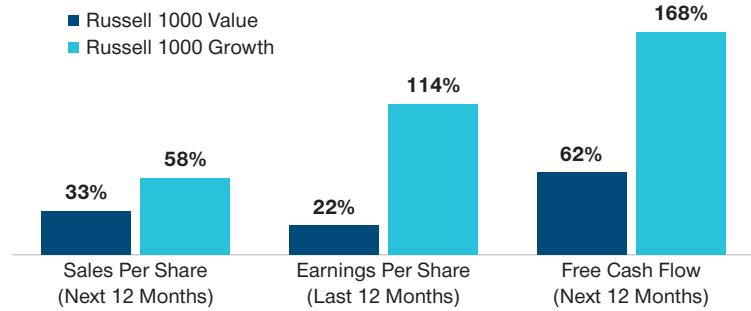
Fundamentals Have Supported Superior Performance by Growth Stocks

Growth vs. Value Fundamentals

June 1, 2007, Through December 31, 2019



CUMULATIVE CHANGE



Past performance is not a reliable indicator of future performance.

Sources: Russell and T. Rowe Price calculations using data from FactSet Research Systems Inc. All rights reserved (see Additional Disclosures).

INVEST WITH CONFIDENCE®

T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

To learn more, please visit troweprice.com.

T.RowePrice®

Additional Disclosures

London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). © LSE Group 2020. FTSE Russell is a trading name of certain of the LSE Group companies. "FTSE®" "Russell®", "FTSE Russell®" are a trade mark(s) of the relevant LSE Group companies and is/are used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication. The LSE Group is not responsible for the formatting or configuration of this material or for any inaccuracy in T. Rowe Price Associates' presentation thereof. I.H.S. Markit: Copyright © 2020 IHS Markit. All rights reserved.

Important Information

This material is provided for informational purposes only and is not intended to be investment advice or a recommendation to take any particular investment action.

The views contained herein are those of the authors as of February 2020 and are subject to change without notice; these views may differ from those of other T. Rowe Price associates.

This information is not intended to reflect a current or past recommendation, investment advice of any kind, or a solicitation of an offer to buy or sell any securities or investment services. The opinions and commentary provided do not take into account the investment objectives or financial situation of any particular investor or class of investor. Investors will need to consider their own circumstances before making an investment decision.

Information contained herein is based upon sources we consider to be reliable; we do not, however, guarantee its accuracy.

Past performance is not a reliable indicator of future performance. All investments are subject to market risk, including the possible loss of principal. All charts and tables are shown for illustrative purposes only.

T. Rowe Price Investment Services, Inc.

© 2020 T. Rowe Price. All rights reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the bighorn sheep design are, collectively and/or apart, trademarks or registered trademarks of T. Rowe Price Group, Inc.