

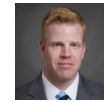


Tech Stock Valuations Have Become Reasonable

July 2022

KEY INSIGHTS

- Although technology stocks have sold off steeply year-to-date, they are still not cheap when compared to the broader market.
- Our Asset Allocation Committee recently added to growth stocks but remains underweight relative to value.



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Since the beginning of 2022, stock markets have sold off sharply, with many major indexes recently reaching bear market territory. Notably, technology stocks, in particular, have borne the brunt of the sell-off (Figure 1, left chart).

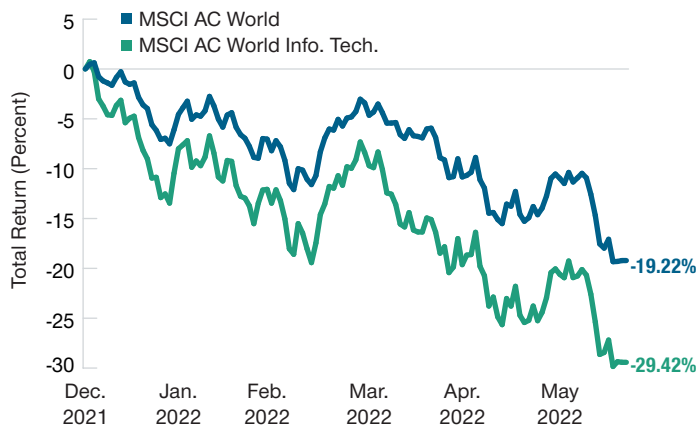
With many investors wondering if tech stocks have become attractive again,

taking a longer-term perspective could be instructive. An analysis of stock performance during the pandemic era shows that, despite the steep year-to-date sell-off, tech stocks have still returned more than twice as much as the broader market (Figure 1, right chart).

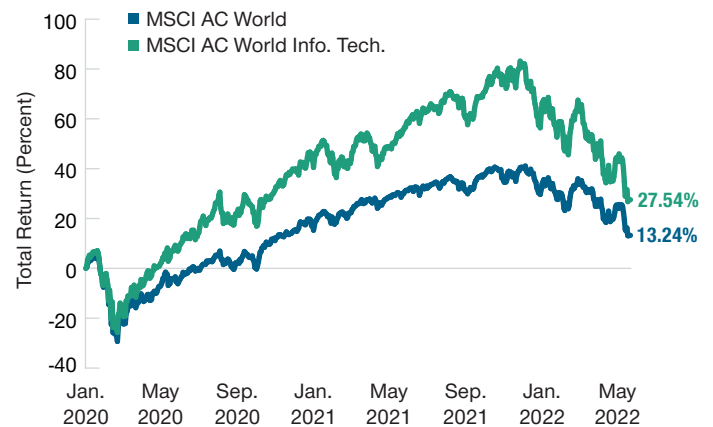
Tech Rout Has Been at the Core of the Sell-Off

(Fig. 1) Pandemic-era returns for the tech sector still exceed the broader market

Year-to-Date Returns (as of 6/21/22)



Pandemic-Era Returns (1/31/20 to 6/21/22)



December 31, 2021, to June 21, 2022 (left chart) and January 31, 2020, to June 21, 2022 (right chart).

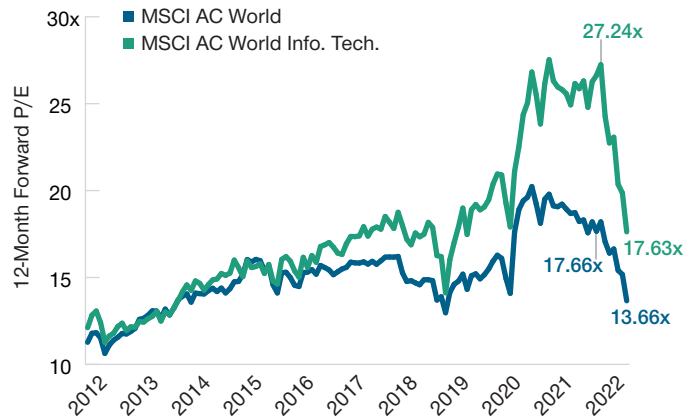
Past performance is not a reliable indicator of future performance.

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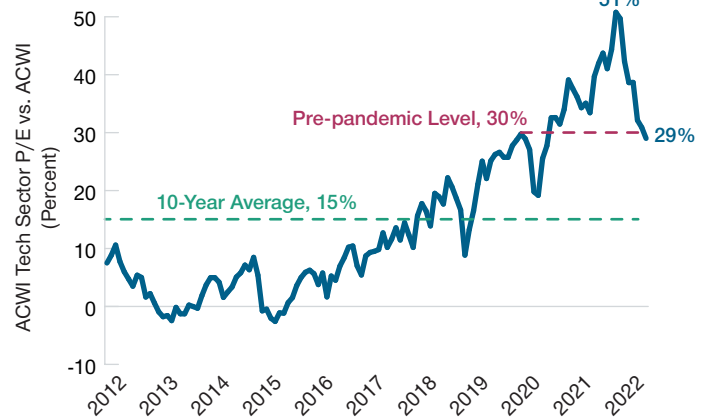
Have Technology Stocks Become Attractive Again?

(Fig. 2) Sector premium has largely reversed to pre-pandemic levels but remains elevated

Price/Earnings (P/E) Comparisons



Tech Sector Premium



January 2012 to June 2022.

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The earnings for many technology companies surged during the pandemic due to the accelerated adoption of many important technology trends—such as cloud computing, online shopping, and streaming video. While tech stocks gained significantly during this period, their outperformance was partially driven by higher earnings rather than entirely by increases in valuations.

This premise can be tested by comparing the price/earnings (P/E) ratio of the tech sector versus the broader market. As shown in Figure 2, valuations for tech stocks and their valuation premium relative to broader equities became extreme during the

pandemic—a “pandemic premium” that has mostly been reversed. Still, it is important to note that the valuation premium for the tech sector remains almost double the 10-year average premium (Figure 2, right chart).

Overall, the rout in technology stocks has helped to remove much of the froth, and valuations have become more reasonable since their peak in November 2021. However, these stocks are still not cheap relative to the broader market. Given our continued caution toward this heavily growth-oriented sector, our Asset Allocation Committee recently added to growth stocks but remains underweight relative to value.

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