NEUBERGER | BERMAN

ELI SALZMANN
Senior Portfolio Manager
Neuberger Berman Equity

DAVID LEVINE
Portfolio Manager
Neuberger Berman Equity

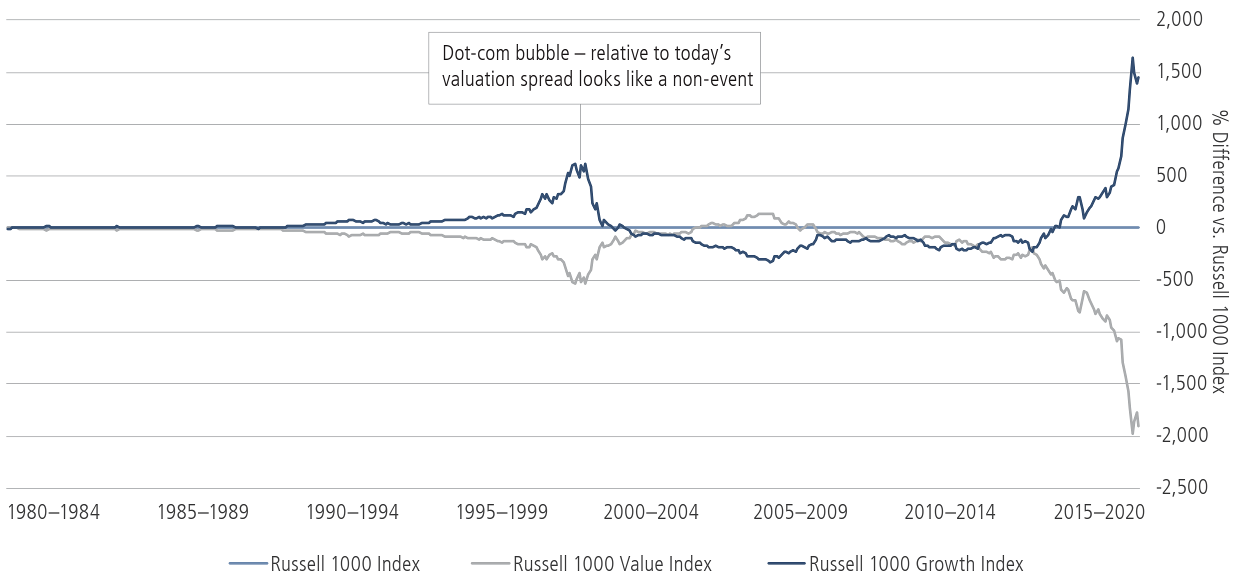
Could It Finally Be Time for Value?

Why we think the recent reversal in growth stocks' multiyear dominance could be set to continue

After an extended period of significant outperformance by growth stocks over value stocks, we think we may have reached the turning point—but first, let's look at the history.

The chart below illustrates the relative performance of large-cap growth and value relative to the Russell 1000 benchmark. Highlighted in the chart is the spread during the dot-com bubble, at the time the largest performance spread we had ever seen. We are seeing performance spreads today that make the 2000 dot-com bubble look like a small hill relative to the mountain we are standing on top of today. The spread narrowed back in again during the early 2000s. Maybe it will be different this time, but then again, maybe not.

FIGURE 1. GROWTH OUTPERFORMANCE IS NOW NEAR AN ALL-TIME HIGH
Cumulative return spread between the Russell 1000 Growth and Value indices and the Russell 1000 Index, 1979 – 2020



Source: Bloomberg. Data as of November 30, 2020. All indices as indicated in the charts are on a total return basis. For illustrative purposes only. Information is obtained from sources deemed reliable, but there is no representation or warranty as to its accuracy, completeness or reliability. Investing entails risks, including possible loss of principal. **Past performance is no guarantee of future results.**

Quarter-to-date, end of November the Russell 1000 Value Index has outperformed the Russell 1000 Growth Index by 547 basis points, driven by economic acceleration and vaccine optimism. But this is still a drop in the bucket compared to the dominance of growth over the past several years. Is it a head fake or the beginning of a trend?

We believe it's the very beginning of a change in the environment. With both monetary and fiscal stimulus being pumped into the system and a post-pandemic environment on the horizon, we think the economic clock is resetting back to early cycle, and that tends to favor value over growth. We also believe that inflation and interest rates will be higher in the medium term versus where they are today, and that has tended to benefit value sectors such as Financials, Industrials and Materials.

Another important element in this environment is that large-cap markets are very concentrated in a handful of growth stocks that dominate not only the growth indices, but the core indices, too. Some of those same names can be found in many large-cap value funds, which could be creating significant unintended growth overweights and risk exposures in end investors' portfolios. We believe that investors are likely to benefit by diversifying their exposures with allocations to "true" value managers relative to the growth managers and core managers they are currently invested with. Those who do not diversify may be surprised and disappointed if their supposedly active-management returns potentially end up the same or worse than the market's. This concentration of risk has gone unnoticed with attractive performance over the past few years, but if we start to see a normalization and mean reversion in valuation, investors could be exposed.

After such a long period of pronounced outperformance by one section of the market, it is not surprising to find that investors' positioning has evolved. Consider the assets under management in different Morningstar categories as indicative of investors' overall style exposure: large core has $4.7 trillion, large growth $2.4 trillion and large value $1.2 trillion. Investors are overweight core and growth relative to value.

We may be on the verge of a turn in market leadership. Then again, this might just be a short-term hiccup in a new normal of persistent growth-stock outperformance. But one thing is for sure in our view: when positioning is this extreme, markets tend to take the decision away from investors.

Index Definitions

The **Russell 1000 Index** measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 90% of the U.S. market.

Russell 1000 Value Index: Measures the performance of those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values. The index is market cap-weighted and includes only common stocks incorporated in the United States and its territories.

Russell 1000 Growth Index: Measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Morningstar Large Value Category: Large-value portfolios invest primarily in big U.S. companies that are less expensive or growing more slowly than other large-cap stocks. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value and cash flow).

NEUBERGER | BERMAN

Neuberger Berman
1290 Avenue of the Americas
New York, NY 10104-0001

www.nb.com