

BCA Market Perspective © The Rotation from Growth Stocks to Value Continues January 2021

BCA observed the start of a growth to value rotation among large, small and mid-cap stocks in September 2020. The nine-month performance gap in favor of growth had reached 37 percentage points by September 30. This large margin, occurring in a short period of time, coincided with the COVID-19 related work from home trend that began in March 2020. As people shifted spending habits away from retail, airlines, cruise travel, restaurants, lodging, and driving, the internet economy and technology took over investor attention. But only a small number of growth stocks propelled the large-cap growth index. As of September 2020, the top 10 stocks in the Russell 1000 large-cap growth index represented 45% of the entire index. This is more concentrated than the growth stock peak in 1999, which had reached 38%.

But thanks to record U.S. government action and coordination with the private sector to bring experimental RNA-based vaccines to the public worldwide, investors began anticipating a quick economic recovery among the many stocks beaten down during the year.

The rotation in favor of growth stocks began in 2017, as technology and internet-based companies experienced attractive revenue growth, only to accelerate even faster in early 2020. Further, as value stocks became relatively cheaper, the dividend yields became noticeably attractive. By early January 2021, the dividend yield of the Russell large-cap value index was well above large-cap growth (+2.54% vs. +0.72%), adding more incentive to move back to value stocks.

