

# WHY DO LARGE-CAP GROWTH STOCKS FARE BETTER IN A VOLATILE MARKET?

By Joe Williams, CFA<sup>®</sup>

Commerce Trust Company Director of Investment Strategy Joe Williams, CFA, has witnessed many economic cycles during a career in the investment industry stretching over four decades. As co-manager of the Commerce large-cap growth, mid-cap growth, and value strategies, Joe shares some context on the importance of sector weightings in the S&P 500 index and how they can translate into the performance characteristics of an investment portfolio in a volatile market.

Two investment themes we had in place at the beginning of the year were to weight growth stocks over value stocks and domestic stocks over international stocks. In our view, these two decisions made sense when the economy was doing well and still make sense as the world economy moves into a recession.

In general, growth stock earnings typically have less sensitivity to the economy and therefore should hold up better in a volatile economic period.

Year to date, the Russell 1000 Growth index is down 3.3% versus the Russell 1000 Value index decline of 19.5%.

When we break down the performance of the S&P 500, for example, it's not hard to see why there is a dramatic difference in returns.

Value stock prices are clearly reflecting some heavy pressure on earnings to date and likely over the rest of the year. When investors sense the economic growth begins to accelerate, we would expect the performance gap to narrow, but we are not at that point yet.

Another theme to take note of is the current performance advantage domestic stocks have over international stocks. Why do domestic stocks continue to outperform international stocks?

The S&P 500 has declined 10.5% thru April 17th while MSCI EAFE has

SECTOR	PERFORMANCE YTD (AS OF 4/17/2020)	WEIGHT OF S&P 500	LEANS TOWARD
HEALTH CARE	-0.60%	15.40%	GROWTH
TECHNOLOGY	-2.10%	25.50%	GROWTH
CONSUMER STAPLES	-3.10%	7.80%	GROWTH
UTILITIES	-5.50%	3.60%	VALUE
CONSUMER DISCRETIONARY	-6.00%	9.80%	SPLIT
COMMUNICATIONS SERVICES	-8.80%	10.70%	SPLIT
REAL ESTATE	-10.00%	3.00%	VALUE
MATERIALS	-17.50%	2.50%	VALUE
INDUSTRIALS	-22.00%	8.20%	VALUE
FINANCIALS	-26.60%	10.90%	VALUE
ENERGY	-42.30%	2.60%	VALUE

declined 19.7%. The sector makeup of each index explains a lot of the difference in performance. We know growth has done considerably better than value around the world. The S&P 500 is tilted toward growth while international stocks, as represented by MSCI EAFE Index, is tilted toward value. The Morgan Stanley International Europe, Australasia and Far East broad market (MSCI EAFE) index covers the major international equity markets reflecting the performance of large- to small-cap stocks outside the United States and Canada.

	SECTORS	S&P 500	EAFE
GROWTH	HEALTH CARE, TECHNOLOGY, CONSUMER STAPLES	48.7%	35.1%
VALUE	FINANCE, INDUSTRIALS, MATERIALS	21.6%	36.2%

1 MSCI EAFE Index Fund Information  
2 S&P 500 Index Fund Information

If the trend of outperformance of growth over value continues, the S&P 500 should outperform EAFE, which is a reason to underweight our long-term target of 30% for international stocks in an equity portfolio.

Clients who have a thoughtful forward-looking investment plan in place should view these worldwide exogenous events in the context with their own personal goals. If you have any questions about your portfolio, or have any other concerns, your Commerce Trust Company investment advisor welcomes your phone call.

Past performance is no guarantee of future results, and the opinions and other information in the commentary are as of April 22, 2020. This summary is intended to provide general information only, may be of value to the reader and audience, and is reflective of the opinions of Commerce Trust Company.

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Joe is the director of investment strategies for Commerce Trust Company as well as a portfolio manager and serves on the investment policy team. Joe is the co-manager of the Commerce growth, mid-cap growth, and value strategies. He has more than 42 years of experience in investment management with Commerce Trust. He received his bachelor of science degree from Drake University and is a member of both the Kansas City Society of Financial Analysts and the CFA Institute. He holds the Chartered Financial Analyst® designation.



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