

Can the Party for Growth Stocks continue?

2020 was a wild ride for markets, which reached new highs in February, then fell more than 30% in less than twenty-five trading days – the fastest 30% decline in history. As the economy adjusted to a new normal, markets steadily climbed back to end the year at record high levels. All this despite persistent government mandated lockdowns, a second larger wave of COVID cases and political and social unrest.

But does a rising tide lift all boats? Digging deeper into the returns shows a wide gap between winners and losers for the year. In this case, the winners were growth stocks – in particular megacap technology names – and the losers were value stocks.

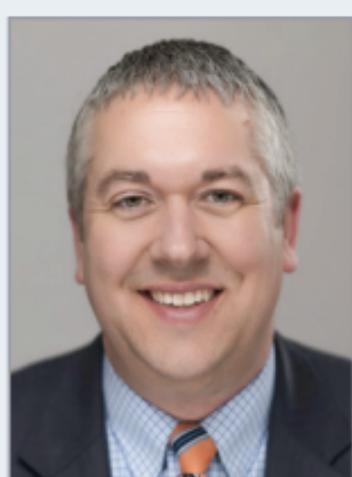
While many of today's growth companies have sustainable business strategies and real earnings compared to the dot com companies like eToys and Pets.com, there are signs of froth and excess in the growth sector after a decade of outperformance. Look no further than Apple's price to earnings ratio which has averaged around 14x for the last ten years before skyrocketing to over 40x in 2020.

2020 also marked the tenth time in the last twelve years that growth has outperformed its value counterparts. The dispersion this year was so large that the Russell 1000 Growth Index outperformed the Russell 1000 Value Index by 37%, the largest calendar year difference in over four decades. The last time growth outperformed value by even remotely that much was 1998 (24%) and 1999 (27%) leading up to the dot com bubble burst.

The market cap concentration of the largest stocks in the S&P 500 has never been higher, leading market returns to be significantly influenced by just a select few companies.

Consider that the top five stocks in the S&P 500 (Apple, Microsoft, Amazon, Google and Facebook) account for around 20% of the index yet contributed more than 50% of its total return in 2020.

No one knows if or when the tides will change; but with the start of a new year comes a good time to take a fresh look at your portfolio allocation.



Nick Ziarek,
CFA, CFP®, AIF®
P: 262.814.1600
F: 262.814.0600
nick@shakespearewm.com