

Concentrating on a Rotation



Source: Bloomberg, FTSE Russell, S&P, Strategas and Todd Asset Management as of 5/28/2020.

The top panel shows the relative price performance of the Russell 1000 Value divided by the Russell 1000 Growth. The series is indexed to 1 on 12/31/1992. The bottom panel takes the 5 largest names in the S&P 500 each month and sums the weights. Current top 5: Microsoft, Apple, Amazon, Facebook and Alphabet.

- Much has been written about the outperformance of Growth over Value and the dominance of a handful of mega-cap Tech names (FANGMAs). Given that we are observing historically extreme readings on both of these dynamics (see above), we wonder whether a rotation could be in store.
- The last time we saw these levels of concentration in the S&P 500 was back in the Tech Bubble. This just so happened to coincide with a recession, bear market and rotation from the Growth market that dominated the 1990's to Value. Recessionary bear markets have typically resolved with leadership changes (i.e. Growth vs. Value, US vs. International, Defensive vs. Cyclical, etc.).
- The global economy is opening back up as lockdowns are lifted which is helping investors gain comfort that the worst of the recession may be behind us. If we continue to see this recovery unfold, improved visibility could drive a rotation into Cyclical and Value. This could also lead to International outperformance over US, which has historically coincided with Value/Growth cycles.

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Todd's Chart of Interest

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