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WEALTH MANAGEMENT

The Weekly Market Update – 12/27/22: Value Stocks Outperform in 2022

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	3,844.82	-0.20%	7.23%	-19.33%	-15.81%	4,796.56	24.8%
Dow Jones Industrial Average	33,203.93	0.86%	15.59%	-8.63%	-3.71%	36,799.65	10.8%
NASDAQ Composite	10,497.86	-1.94%	-0.74%	-32.90%	-32.44%	16,057.44	53.0%
Russell 2000	1,760.93	-0.14%	5.78%	-21.57%	-19.92%	2,442.74	38.7%
MSCI EAFE (USD)	1,943.56	0.36%	16.98%	-16.80%	-12.60%	2,398.71	23.4%
MSCI Emerging Markets (USD)	954.78	-0.26%	9.02%	-22.50%	-21.25%	1,444.93	51.3%
Bloomberg Commodity Index	112.56	-0.14%	0.96%	13.50%	17.49%	237.95	111.4%
Barclays U.S. Aggregate Bond	89.53	-1.50%	2.07%	-14.52%	-14.94%	112.07	25.2%

Source: FactSet

Returns from "value" stocks have exceeded "growth" stocks in 2022 year-to-date (YTD), marking the first full year of better relative performance since 2016. Through 12/23/22, the most widely followed index of large-company value stocks, the Russell 1000 Value index (according to FTSE Russell and FactSet), was down -7.7% including reinvested dividends (total return). This compared to a YTD total return for the Russell 1000 Growth index (large-company growth) of -28.9%. In 2022's fourth quarter (4Q22), large company stocks have rallied (although still down YTD) as the widely followed S&P 500 posted a YTD (also through 12/23/22) total return of +7.7%. Also in 4Q22, the total returns of the Russell 1000 Value and Russell 1000 Growth indices were +12.2% and +2.5%, respectively. While the definition of value stocks vs. growth stocks is not a perfect science, we generally assign value status to companies that trade at lower valuation metrics relative to their industry (usually price-to-earnings ratios, P/E, a company's price per share divided by estimated earnings per share). We view growth stocks as companies with higher-than-average estimated growth in sales and earnings, and a higher P/E multiple than the industry group. While all 11 Global Industry Classification Standard (GICS) sectors have company representation across both growth and value, sector concentration drives the major performance dispersion in the growth and value indices. In the Russell 1000 Growth, as of 9/3/22, four sectors comprised 79.5% of the market capitalization (market cap) weighting of the index (Technology-IT, CD, HC, and CS). Conversely, for the Russell 1000 Value index as of 9/30/22, the top four sectors comprised 56.0% of the weighting (Financials, HC, Industrials, and IT).

The three worst performing S&P 500 sectors in 2022 (through 12/23/22) were among the four largest growth index weightings. Communication Services (CS) was down -40.4% (price return, not including dividends) YTD in 2022, the worst performing S&P 500 sector. As of 9/30/22, CS comprised 8.8% of the Russell 1000 Growth (growth) index and 7.6% of the Russell 1000 Value (value). The second-worst performing S&P 500 sector, Consumer Discretionary (CD) was down -37.4% YTD. CD comprised 17.0% of the market cap of the growth index and just 6.0% of the value index. IT was down -28.8% YTD (S&P 500 through 12/23/22), and the sector comprised 42.7% of the growth index and 8.8% of the value index. The S&P 500's two top-performing sectors YTD, Energy (+58.1%), and Utilities (-0.8%), contribute larger sector weightings in value, contributing to better relative performance. As of 9/30/22, Energy comprised 7.8% of the value index, and just 1.6% of growth. Similarly, Utilities made up 6.0% of value's market cap, and just 0.1% of growth. Following five years (2017 to 2021) of poor returns relative to growth stocks, value stocks have widely outperformed in 2022. We attribute the rotation to higher interest rates and inflation (reducing the present value of growth stocks' expected future earnings). While we advocate for maintaining exposure to high-quality value and growth companies, we believe that an overweight to value remains appropriate.

Following the Monday holiday, the final week of 2022 is a short one as the year comes to a close. As investors and the Federal Reserve Bank assess economic and growth prospects for 2023, a more immediate concern will be disruptions to holiday travel to close out 2022. Extreme winter weather disrupted holiday travel across the country in late December. According to data from the Transportation Security Administration, air passenger travel ran below recent trends in December; compared to 2021 for the same period, daily travel was up +9% year-over-year, after tracking +18% in early November. We will be watching closely to determine the impact of weather vs. a potential slowdown in consumer demand.

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