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Market Comment:

Is there value in value?

A frequent question as of late is whether investors should consider shifting from growth to value in equity portfolios. The answer is no, but it's not a simple question.

Instead of providing illumination and specificity, investment jargon is frequently an impediment to clarity. The term “value” is case in point. Value is used interchangeably to (1) refer to a type of statistical factor for ranking stocks, and (2) reference an analytical investment style. These two versions of value are not interchangeable.

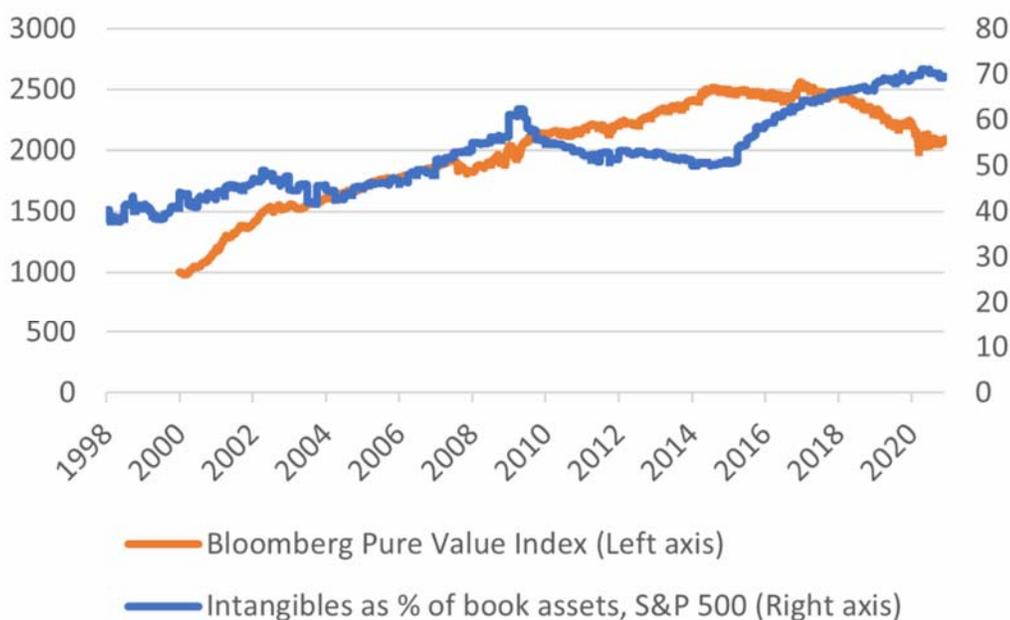
When investors discuss “growth versus value” they are usually referencing the statistical factor version of value. The value factor is generally measured through a financial ratio like price to book value, earnings, or sales. Companies that are cheaper based on these metrics are value stocks; those that are more expensive are growth stocks. [Eugene Fama won a Nobel Prize in 2013](#) for, in part, “discovering” the statistical value factor, which has performed poorly as of late (Fig. 1).

One challenge for the value factor has been that companies [increasingly shifted from tangible to intangible investments](#) over the last 30 years (Fig. 1). Even though tangible and intangible investments are made for the same reason — to produce higher future cash flows — tangible investments are held as assets on the balance sheet, whereas intangible investments are expensed on the income statement. The differing accounting treatment creates a situation where the multiples that characterize the value factor, like price-to-book and price-to-earnings, are increasingly muddled.

This is where the [Benjamin Graham](#) version of value — value as an analytical style — continues to work just fine. Value as an analytical style refers to using bottoms-up analysis to purchase businesses at a discount to the present value of their future cash flows. This version of value cannot be simplified into financial ratios, nor can it be packaged into rules-based indices. Value as an analytical style requires, well, analysis — the accounting statements of

each company must be disentangled — to access the future cash flows of an investment versus current market expectations.

Back to the question at hand. No, it is not time to overweight value versus growth in equity portfolios. The statistical value factor has become largely irrelevant. On the other hand, value as an analytical style — attempting to identify undervalued businesses — will always be an important part of active investing.



Updated Benchmark Performance:

Benchmark Performance by Asset Class			
	Week-to-Date	Month-to-Date	Year-to-Date
U.S. Large Cap Equities	2.58%	12.30%	16.60%
U.S. Small Cap Equities	3.94%	20.72%	12.54%
International Developed Equities	2.23%	16.98%	4.34%
Emerging Markets Equities	1.79%	11.57%	12.55%
Global Equities	2.36%	13.32%	12.08%
U.S. Bonds	-0.03%	0.91%	7.28%
Intermediate Municipal Bonds	0.05%	0.77%	3.78%
High Yield Bonds	0.63%	3.88%	5.06%
Oil	7.02%	25.50%	-36.16%
Gold	-4.80%	-5.21%	14.11%
Key Rates	11/27/2020	12/31/2019	11/27/2019
U.S. 2 Year Treasury Note	0.16	1.58	1.63
U.S. 10 Year Treasury Note	0.84	1.92	1.77

Week in Review:

- Propelled by continued good news regarding a COVID-19 vaccine, US equities reached new all-time highs last week as the DOW Jones reached 30,000 for the first time. While the long-term outlook has improved, near-term risks remain elevated as coronavirus cases continue to spread and the nations hospitals come under pressure – a record number of Americans, over 90,000, are currently hospitalized with COVID-19.
- First-time weekly jobless claims totaled 778,000, the highest level in five weeks and the first consecutive weekly increase since July, a possible indication that the labor market recovery could be stalling. November unemployment data released this week should help shed some light on the exact level of the recovery. Last month's unemployment rate stood at 6.9%.
- The CBOE Volatility Index, a gauge of investors' short-term stock market volatility, has reached its lowest level since mid-February before the pandemic sent markets tumbling. Increased investor optimism has pushed the index lower while driving US stocks toward a potential record setting month of November.

Economic Calendar:

- Pending Home Sales – Monday, November 30th
- ISM Manufacturing Data – Tuesday, December 1st
- Unemployment Rate – Friday, December 4th

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Indices Used: U.S. Large Cap equities: Russell 1000 Index, U.S. Small Cap Equities: Russell 2000 Index, International Developed Equities: MSCI EAFE Index, Emerging Market Equities: MSCI Emerging Markets Index, U.S. Bonds: Barclays Aggregate Bond Index, U.S. 10 Year Treasury Note: Bloomberg 10 Yr. Treasury Note, Municipal Bonds: Barclays Intermediate Municipal Bond Total Return Index, High Yield Bonds: Barclays U.S. High Yield Total Return Index, Oil: Bloomberg WTI Crude Sub-Index Total Return Index, Gold: Bloomberg Gold Sub-Index Total Return Index

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