

Cash Flow and Carey



Robert Carey, CFA
Chief Market Strategist

2/27/2024

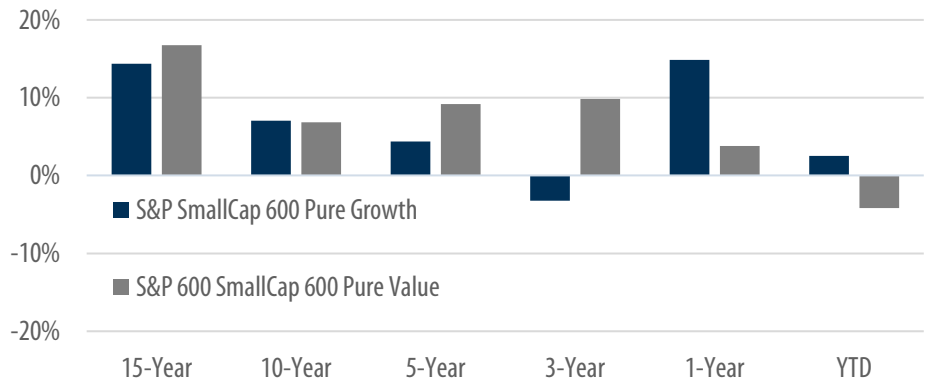
This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The S&P SmallCap 600 Index is an unmanaged index of 600 companies used to measure small-cap U.S. stock market performance. The S&P SmallCap 600 Pure Growth Index is a style-concentrated index designed to track the performance of stocks that exhibit the strongest growth characteristics based on three factors: sales growth, the ratio of earnings-change to price, and momentum. It includes only those components of the parent index that exhibit strong growth characteristics, and weights them by growth score. Constituents are drawn from the S&P SmallCap 600 Index. The S&P SmallCap 600 Pure Value Index is a style-concentrated index designed to track the performance of stocks that exhibit the strongest value characteristics based on three factors: the ratios of book value, earnings, and sales to price. It includes only those components of the parent index that exhibit strong value characteristics, and weights them by value score. The respective S&P SmallCap 600 Sector Indices are capitalization-weighted and comprised of S&P SmallCap 600 constituents representing a specific sector.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

Growth Vs. Value Investing (Small-Caps)

Growth vs. Value Investing

(YTD, 1-Year and Average Annualized Total Returns thru 2/23/24)



Source: Bloomberg. Past Performance is no guarantee of future results.

View from the Observation Deck

We update this post on small-capitalization (cap) stocks every now and then so that investors can see which of the two styles (growth or value) are delivering the better results. [Click Here](#) to view our last post on this topic.

- As today's chart reveals, the S&P SmallCap 600 Pure Growth Index (Pure Growth Index) outperformed the S&P SmallCap 600 Pure Value Index (Pure Value Index) by a significant margin over both the 1-Year and year-to-date (YTD) time frames.
- In our last post on this topic, we noted that the Information Technology Sector comprised 19.8% and 6.4% of the Pure Growth and Pure Value Indices, respectively.

On a trailing 12-month basis thru February 23, 2024, the S&P SmallCap 600 Information Technology Index posted a total return of 5.94%. For comparative purposes, the S&P SmallCap 600 Index was up 4.94% on a total return basis over the same period.

The total returns in today's chart, thru February 23, 2024, were as follows (Pure Growth vs. Pure Value):

- 15-year average annualized (14.37% vs. 16.73%)
- 10-year average annualized (7.04% vs. 6.82%)
- 5-year average annualized (4.38% vs. 9.16%)
- 3-year average annualized (-3.23 % vs. 9.83%)
- 1-year (14.86% vs. 3.80%)
- YTD (2.51% vs. -4.19%)

Takeaway

As today's chart illustrates, the Pure Growth Index has enjoyed substantially higher total returns than the Pure Value Index over the trailing 12-month and YTD time frames (thru 2/23/24). The last time we posted about this topic, we presented the idea that sector allocations could offer insight into the divergent performance between these two benchmarks. From our perspective, that estimation still holds. While sector weightings can change, they may provide unique insight into recent performance trends, in our view.