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ASSET MANAGEMENT

Sector Scorecard

A breakdown of growth and value style performance by sector

Divergence between growth and value is nothing new. But the current disparity reminds us to dig deeper when looking at index performance. As market cycles evolve, analyzing sector returns and weights can be useful in explaining the divergence between growth and value styles. In other words, composition matters. The sectors with the highest weights and strong fundamentals have fueled index performance. Indeed, tech is now sitting at the top of the heap as rosy earnings growth forecasts and reasonable valuations have set the stage to drive returns higher.

Growth Heavy

Technology and consumer discretionary have performed well relative to other sectors and now make up more than 38% of the S&P 500 and 59% of the Russell 1000 Growth Index.

U.S. Sector Performance

Total Return as of 6/30/2020:			GICS Sector Weights:		
S&P Sector Indexes	**QTD**	**YTD**	**S&P 500**	**Russell 1000 Growth**	**Russell 1000 Value**
Information Technology	30.5%	15.0%	27.5%	43.9%	10.2%
Consumer Discretionary	32.9%	7.2%	10.8%	15.4%	7.0%
Communications Services	20.0%	-0.3%	10.8%	11.1%	9.3%
Health Care	13.6%	-0.8%	14.6%	15.0%	14.1%
S&P 500 Index	**20.5%**	**-3.1%**	**100.0%**	**n.a.**	**n.a.**
Consumer Staples	8.1%	-5.7%	7.0%	4.8%	8.1%
Materials	26.0%	-6.9%	2.5%	0.8%	4.5%
Real Estate	13.2%	-8.5%	2.8%	2.1%	4.7%
Utilities	2.7%	-11.1%	3.1%	0.0%	5.9%
Industrials	17.0%	-14.6%	8.0%	4.6%	12.3%
Financials	12.2%	-23.6%	10.1%	2.1%	18.5%
Energy	30.5%	-35.3%	2.8%	0.1%	5.3%

Source: Morningstar Direct, J.P. Morgan Asset Management

Growth style performance has been dominated by four sectors. The four sectors that have outperformed the S&P 500 Index return over the year-to-date period—technology, consumer discretionary, communication services and healthcare—make up 85.4% of the Russell 1000 Growth Index and only 40.6% of the Russell 1000 Value Index. Within the S&P 500 Index, the four top-performing sectors year-to-date have a 63.7% weighting, and the seven underperforming sectors make up only 36.3%.

Value style performance has been broad-based. The seven sectors that have underperformed the S&P 500 Index over the year-to-date period make up 59.3% of the Russell 1000 Value Index and only 14.5% of the Russell 1000 Growth Index.

Divergence

Earnings growth projections in tech and health care are strong at a time when earnings for most sectors have been revised downward but they remain at reasonable valuation levels.

S&P 500 Sector Valuation (6/30/2020)	Energy	Financials	Materials	Industrials	Consumer Discratiotionary	Information Technology	Communication Services*	Real Estate*	Health Care	Consumer Staples	Utilities	S&P 500
P/E Ratio (Trailing)	**22.3x**	**13.4x**	**21.3x**	**18.7x**	**35.4x**	**29.4x**	**21.8x**	**44.7x**	**20.7x**	**20.2x**	**15.2x**	**22.3x**
20YR Avg	19.9x	16.9x	19.9x	18.4x	22.4x	25.5x	17.6x	46.1x	19.6x	19.1x	15.6x	18.7x
Premium/Discount	12%	-21%	7%	2%	58%	16%	24%	-3%	5%	6%	-3%	19%
NTM Earnings Growth	**-62.2%**	**-7.7%**	**0.8%**	**-5.5%**	**-7.3%**	**8.0%**	**2.2%**	**0.2%**	**6.0%**	**3.2%**	**3.6%**	**0.0%**
Dividend Yield	**6.1%**	**2.8%**	**2.3%**	**2.3%**	**1.1%**	**1.2%**	**1.3%**	**3.4%**	**1.7%**	**2.9%**	**3.6%**	**2.0%**

* Prior to Sept 2018, Communication Services was called Telecommunication Services
** Real Estate became a stand alone sector in Sept 2016, previously part of Financials
*** NTM earnings growth is the percent change in next 12-months earnings estimates compared to last 12-months earnings provided by broker
Source: Bloomberg, J.P. Morgan Asset Management

Tech and health care offer reasonable valuations. In the S&P 500, technology and health care have higher expected earnings growth over the next 12-months but are not trading at substantial premiums. Financials offer the greatest discount relative to their 20-year average, yet it’s likely that historically low interest rates are creating a headwind by negatively impacting net interest margins on banks and insurers.

Consumer discretionary has struggled with the exception of two large companies. Given the bifurcated nature of consumer discretionary, a few performance winners drove the sector’s year-to-date performance, particularly Amazon and Home Depot, while the majority of sector constituents posted negative performance for the period.

Index composition has magnified the divergence between growth and value styles. If valuations and earnings growth levels are supportive of the current equity style performance, we may see these trends persist. However, investors may still find attractive value opportunities as energy and materials stocks rally off their lows.

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