Value Stocks Are in Position to Swamp Growth: Markets Live 2020
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By Andrew Cinko
(Bloomberg) -- Value stocks are in position to crush their growth cousins in 2020, as an extreme performance gap versus the technology sector gives them plenty of room to catch up while central banks provide economic stimulus.
* The equities market looks a lot like 1999: On a cumulative, rolling three-year basis, the S&P technology index is outperforming energy by almost 100%, the widest gap in 20 years
* * Consider that recently just one company, Apple, was worth more than Exxon, Chevron and the rest of the S&P energy sector combined. That’s despite the fact that fossil fuels still power the world economy, including the server farms behind the tech juggernaut
* The world still craves what energy companies produce. About 85% of global energy demand is met by oil, natural gas and coal, BP CFO Brian Gilvary said on Bloomberg TV last month. In emerging countries, coal use continues to grow as a source of electric power
* In the U.S., demand for gasoline and diesel shows no signs of decline despite greater fuel economy across the country’s vehicle fleets and the rollout of electric vehicles
* As for the expansion of American shale oil output, that’s run headlong into investor demand for profits. Oil supply growth next year could be far lower than expected, putting a firmer floor under West Texas Intermediate crude and, in turn, boosting the industry’s bottom line
* The big change coming in 2020 for equities is that investors will increasingly reach for risk, spurred on by cheap valuations, better cash management and a synchronized global rebound
* Growth stocks’ steady profit gains -- especially in tech -- are prized in a slow growth world. But, when the economic tide turns and cyclical profits gallop higher, investors typically shift to value, where relatively cheap share prices have more room to capture that change compared to their fully-valued, steadily growing counterparts
* If you’re upbeat about value companies, which are cyclical in nature, then you’re probably optimistic about the global economy. The good news is central bankers are doing everything they can to help the economy get back on track

* Fidelity’s sector strategist Denise Chisholm favors cyclical stocks now that the Fed and ECB are cutting rates at the same time. “That has happened only about 10% of the time since the ECB’s inception in 1998, and when it has, the U.S. market has surged in the subsequent 12 months. Cyclical stocks have fared especially well under these conditions, outperforming the market 71% of the time.”
* Even a limited resolution to the U.S.-China trade conflict should help a global economic revival by reducing uncertainty. That should release animal spirits by boosting new orders for machinery, industrial supplies and energy. All that would make the case for value stronger than it’s been in years
* And if 2020 ushers in a shift to choosing thrifty valuations over premium-priced stocks then the 16x forward P/E for the Russell Value index will seem like a bargain that’s too good to pass up versus the nearly 25x P/E for the Russell Growth index
* The turning of the calendar to a new year often causes investors to turn over a new leaf in their portfolios. Value stocks have been out of favor for so long that they’re due for a breakout against growth shares. With numerous fundamental factors lining up to bolster their case, expect 2020 to be the year of value
* NOTE: Andrew Cinko is a Markets Live Blogger for Bloomberg News. The observations he makes are his own and not intended as investment advice. For more markets commentary, see the MLIV blog

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