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.