Weekly Market Review

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The Month Ending May 2021

Last Friday marked the end of May trading for markets and another month of value stocks outperforming their growth counterparts. The technology sector, therefore, growth-dominated Nasdaq Index closed May in the red for the first time in six months, but the S&P 500 Index closed higher for the fourth consecutive month. A month of volatility driven by inflation concerns and extreme fluctuations in cryptocurrencies carried into the stock market, continuing the value rotation trend of the past six months.

In recent years, all the negativity surrounding large value stocks has been nothing on the small-cap zone of the style box. Small growth stocks continued an intriguing run of popular themes. From biotech stocks going public, the latest and greatest technology stocks becoming popular, and the plant-based meat revolution, small value stocks could not catch a break and continued to fall further behind. Since Pfizer announced their COVID-19 vaccine last November, small value stocks have quietly led the market higher and are up nearly 28% this year, than small growth stocks up just 4%. Large cap stocks show a very similar trend, with value stocks up 18%, compared to 6% for growth stocks. These first five months of 2021 serve to remind us of the importance of diversification. Although “value is dead” has dominated conversations over recent years, value has proven it is not dead, and owning cheap, value stocks still make sense. More patience might be needed for these allocations, especially in an era of easy monetary and fiscal policies keeping interest rates low and making expensive stocks look attractive.

Value stocks have not been the only detested allocations; international equities have been right up there as well. While international equities have not experienced the outperformance of value stocks so far in 2021, they did post strong May and quarter-to-date returns. A combination of a weakening U.S. Dollar and a gradual reopening from the pandemic led the MSCI EAFE Index to outperform U.S. stocks by about 3% in May. Although this is much less than value stocks’ outperformance, it still serves as another reminder of diversification’s influence.

Finally, the past year has proven the significance of diversification in a portfolio. We have seen periods of growth outperformance and underperformance, interest rates falling then rising, and commodities being the best or worst allocations. These changes have all taken place very quickly with no warning. Timing these types of moves is virtually impossible. Rather, keeping a consistent allocation to all market areas can capture return no matter where the outperformance is being generated.

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