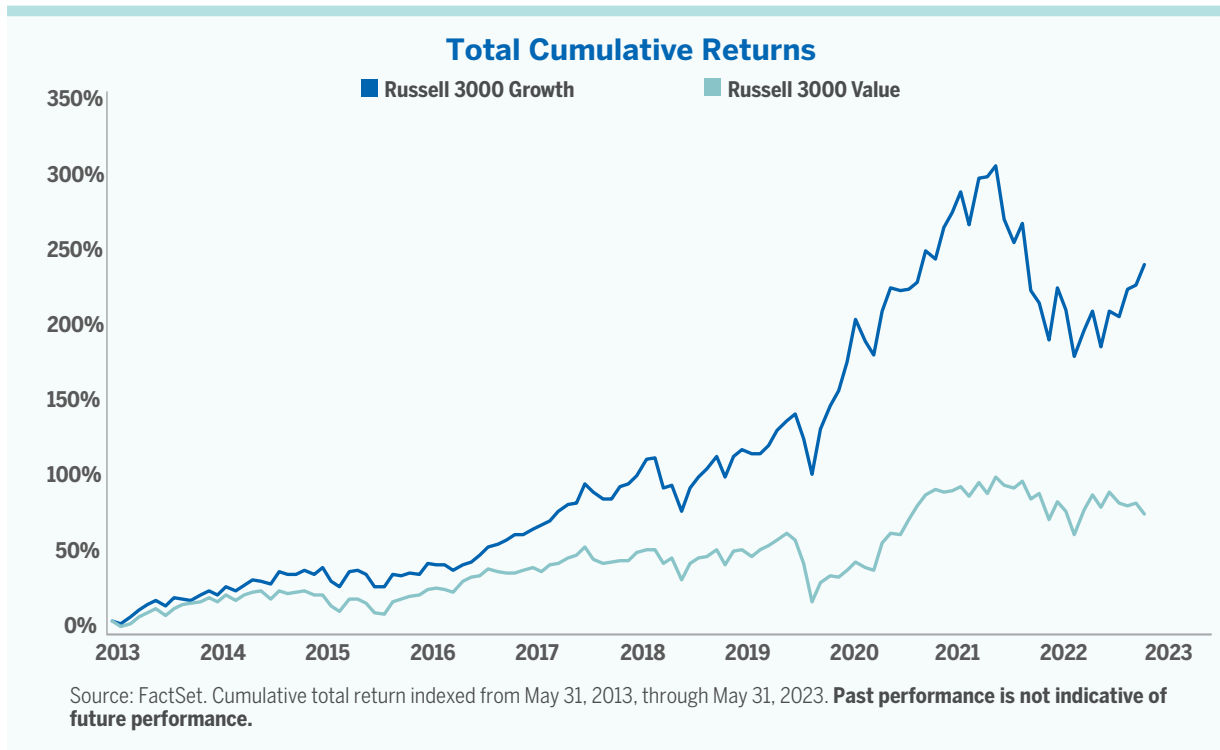


Long-Term Divergence?

Over the past 10 years, growth stocks have dramatically outperformed value stocks. What are the possible drivers of this divergence, and could this continue going forward?



- From 5/31/2013 through 5/31/2023, the Russell 3000 Growth Index has returned in excess of 242% while the Russell 3000 Value Index has returned less than 76%, on a cumulative basis. In general, strength in growth equity index returns has been mirrored by growth company fundamentals whose operating cash flow has grown more than twice as fast as the value index over the period, according to FactSet.¹
- The relative outperformance of growth stocks, both in terms of stock price and fundamentals, can be attributed to two key factors, in our view:
 - We believe the accelerating pace of innovation provides a tailwind to growth stocks that are the creators of such change (e.g., AI, cloud computing, IoT) and a headwind to value stocks which may be victims of change (e.g., newspapers, coal companies, or brick & mortar retail).
 - Traditional style classification is based on an outdated accounting metric, price-to-book value, and we believe it no longer accurately separates stocks based on high vs. low expectations. As a result, growth stocks often possess higher price-to-book values due to the greater investments that their associated companies make in intangible assets (e.g., patents, research & development). Conversely, companies behind value stocks have an affinity to invest in tangible assets (e.g., factories, equipment), resulting in lower price-to-book values, in our view (see [Intangible Impact](#)).
- If these powerful structural drivers of growth performance persist, we believe growth stocks could potentially be an attractive investment opportunity, relative to value stocks, over the long-term.

Investing in innovation is not without risk and there is no guarantee that investments in research and development will result in a company gaining market share or achieving enhanced revenue.

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FactSet is a global company providing financial data, analytics, and software solutions to investment professionals for portfolio analysis, risk management, and financial research.

¹Operating cash flow is a measure of how much cash a company is generating from its core operations. It is calculated by taking the net income and adding back non-cash expenses, such as depreciation and amortization.

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