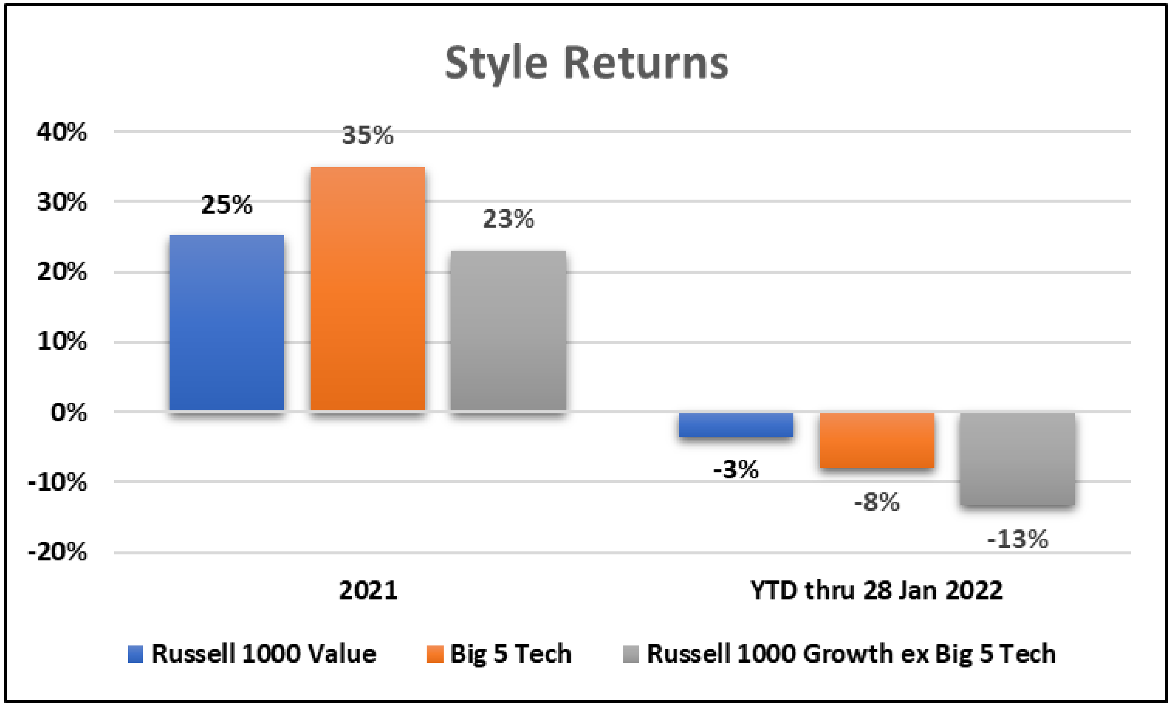
SECOR Asset Management

US Growth versus Value – Impact of the Big 5 Technology Companies

Impact of the Big 5 on the US Growth Index

The US Growth index is dominated by the large technology-related companies.

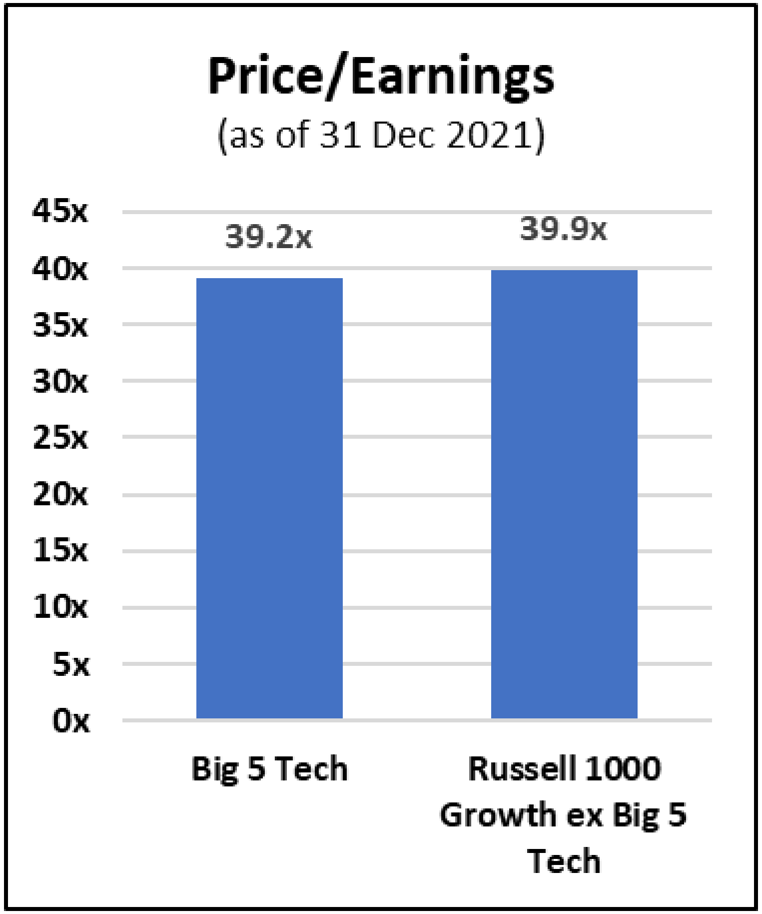
- Apple, Microsoft, Alphabet, Amazon and Meta Platforms account for nearly 40% of the weight of the Russell 1000 Growth index.
- While Value stocks have begun to perform better relative to Growth in the last year, relative performance has been driven by the non-Big Tech Growth stocks that have lagged.
- Many of these companies currently have no earnings but have high expectations.

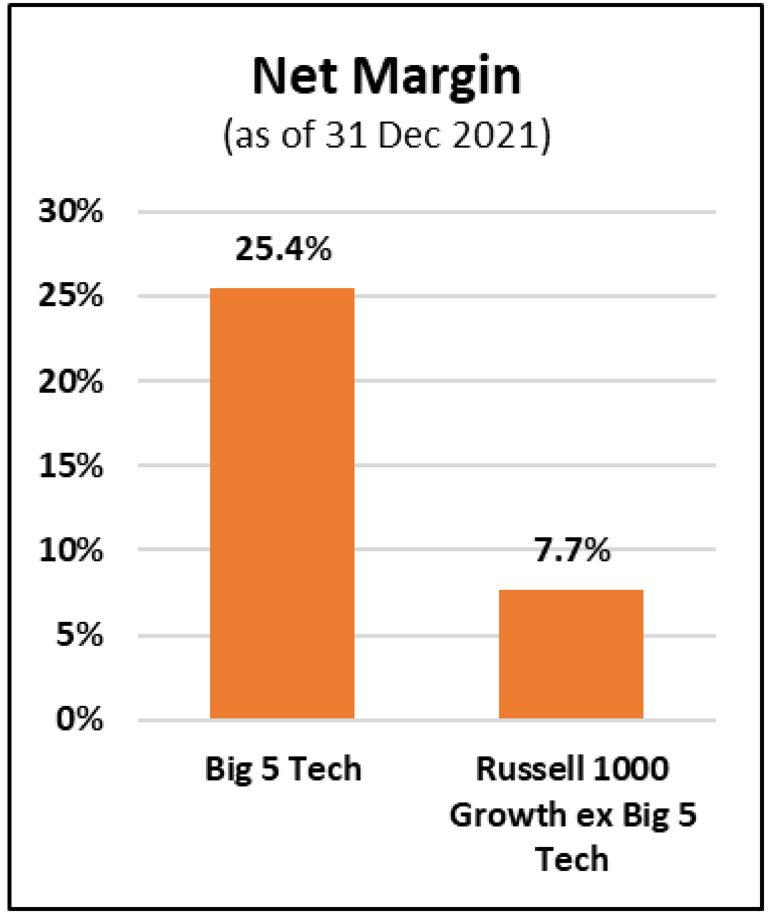


Sources: FTSE Russell, Bloomberg, SECOR.

Big 5 Profitability

The Big 5 Tech companies are valued at roughly the same P/E multiple as the remainder of the Growth index, yet they are far more profitable.





Sources: FTSE Russell, Bloomberg, SECOR.

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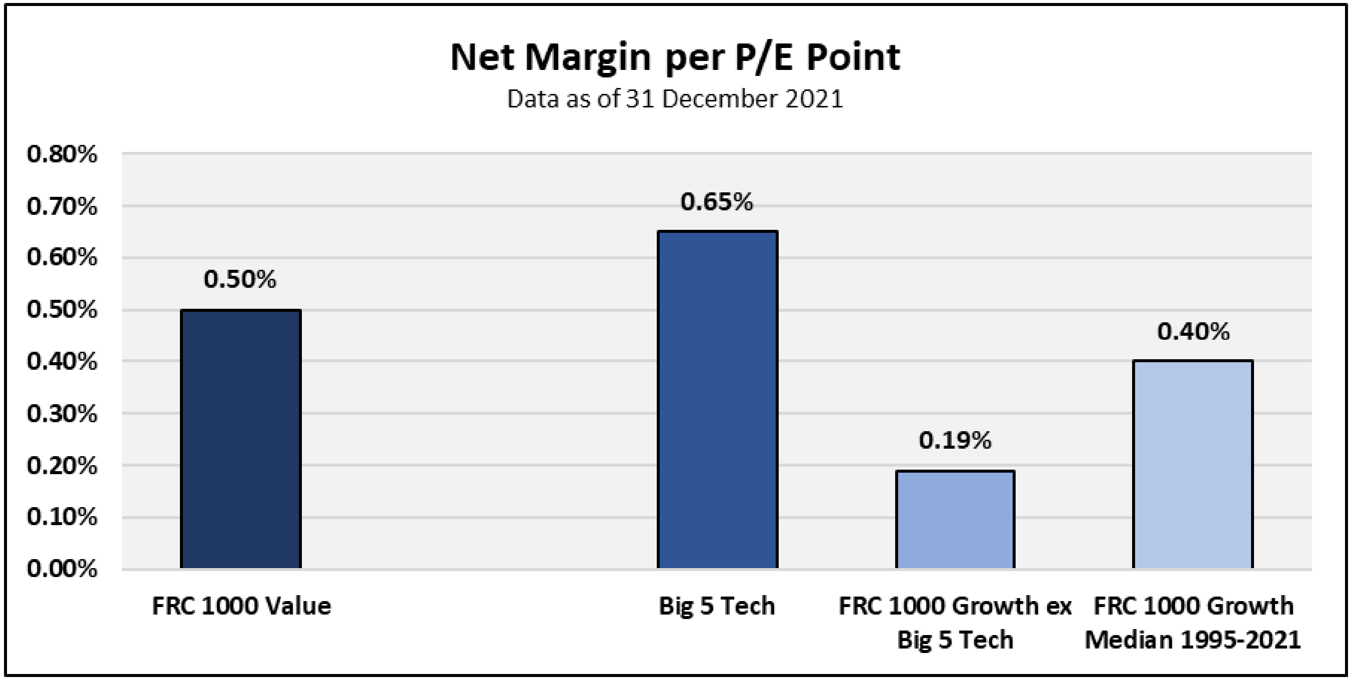
Valuations and Profitability – Two-Tier Growth Universe

When margins are considered along with valuations, the Value universe looks attractive relative to the Growth universe excluding the Big 5 Tech companies, but less so versus the Big 5 Tech companies that have backed up their lofty valuations with exceptional profitability.

- A sustained Value rally appears unlikely in the absence of margin compression among the Big 5 Tech stocks that dominate the Growth index.



Sources: FTSE Russell, Bloomberg, SECOR.

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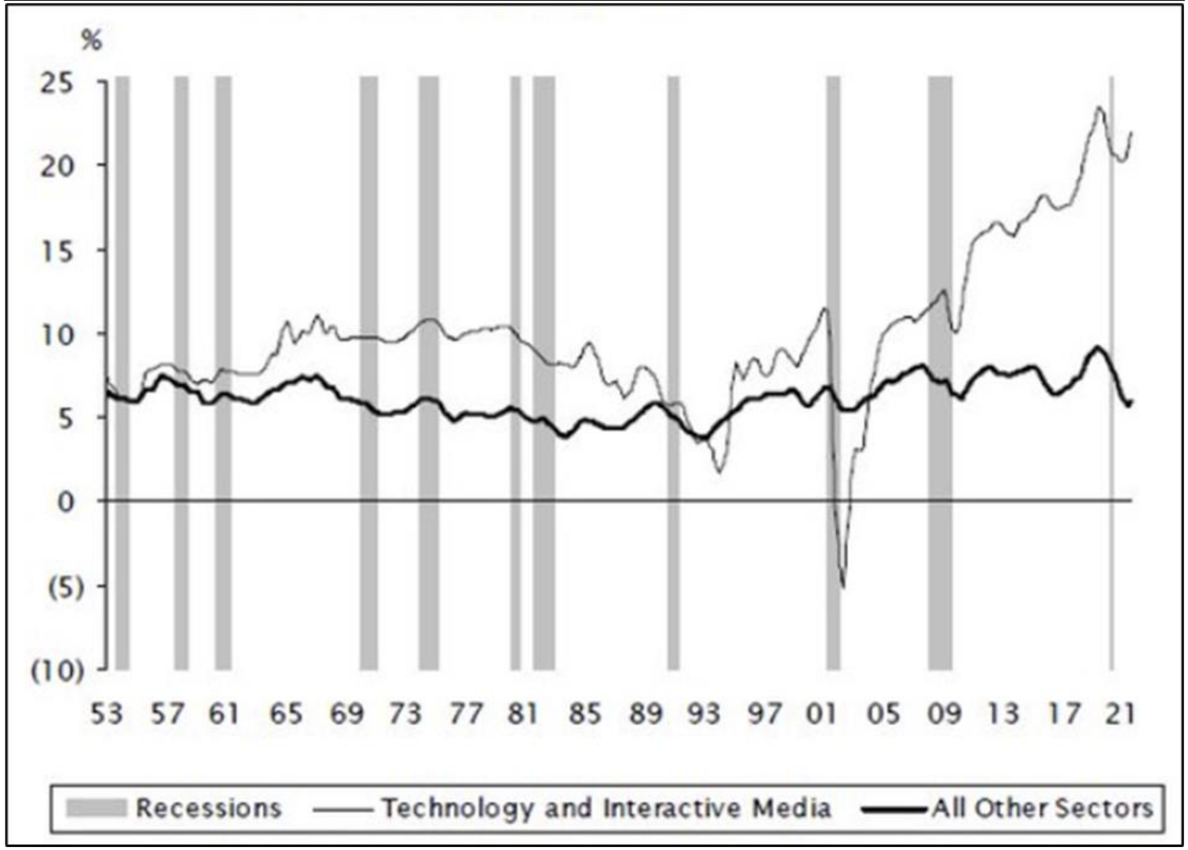
Tech Margin Expansion – Not Just a Covid Phenomenon

Technology margins have been positively impacted by the pandemic and remote work environments, but Tech margin expansion was underway well before COVID.

S&P 500 Technology & Interactive Media versus All Other Sectors: Net Profit Margins

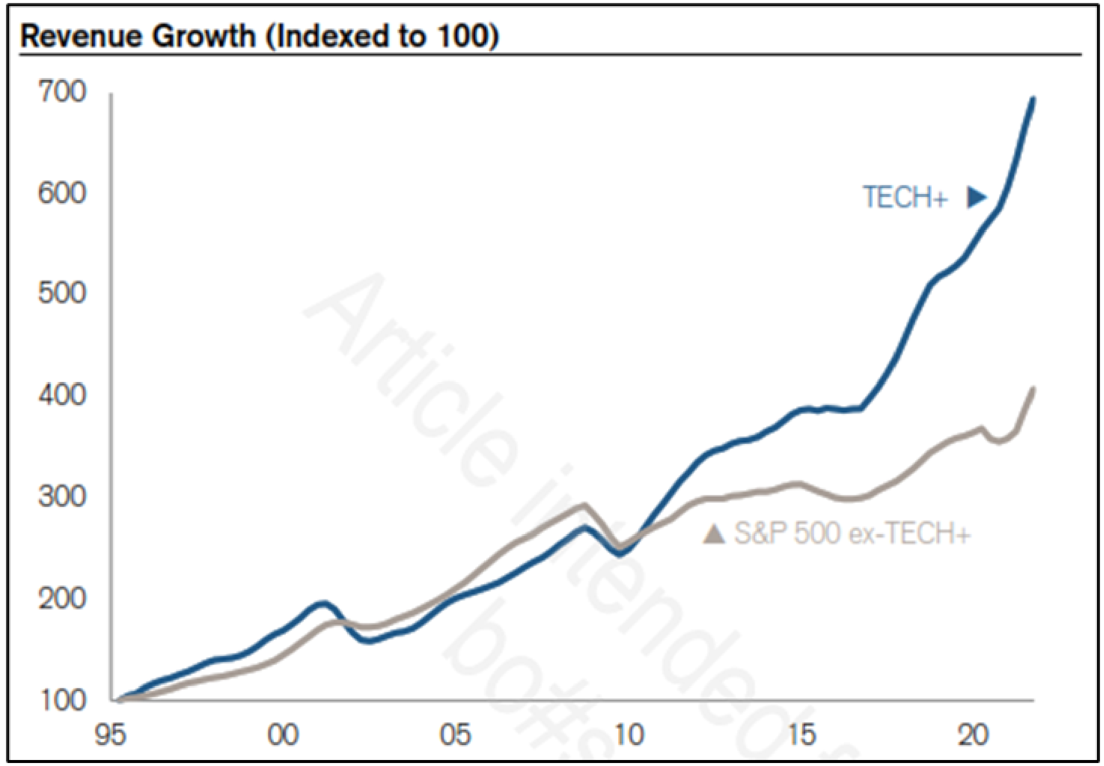


Sources: Empirical Research Partners, NBER, Credit Suisse, Bloomberg, FactSet, SECOR.

Comparing Earnings to Index Weights

Technology and Interactive Media comprised approx. 40% of the S&P 500 index weight at year-end 2021, but only approx. 30% of its earnings.

- In order for its earnings contribution to match its index weight in ten years, Tech stocks must maintain their post-GFC revenue growth advantage of 5.0%/yr. while maintaining their current level of profit margin.
- Most direct path to Tech margin compression, especially among the Big 5, is through increased regulation; however, to date, talk has far surpassed action.



Sources: Empirical Research Partners, NBER, Credit Suisse, Bloomberg, FactSet, SECOR.

Summary

The US Growth index is dominated by the large technology-related companies.

The P/E multiples of these large Tech companies appear justified relative to their profitability unlike the remainder of the index.

When margins are considered along with valuations, the Value universe looks attractive relative to the Growth universe excluding the Big 5 Tech companies.

But Value is less attractive when compared to the Big 5 Tech companies whose high valuations are supported by exceptional profitability.

The Big 5 Tech companies can justify their S&P 500 index weighting by maintaining their revenue growth and margin advantages.

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