

## Shifting Market Leadership

For much of 2020, leadership in the stock market was provided by a relative handful of mega-cap technology companies. As the coronavirus pandemic intensified and the economy stumbled, the perception grew that the so-called FANGMA stocks and other work-from-home stocks were either somewhat or entirely immune from an economic slowdown. While these stocks may have appeared highly valued, their collective earnings outlook was sufficiently superior to warrant much higher valuations than the rest of the market.

As a result, over the first ten months of the year, the best performance within the Russell 1000 Growth Index was posted by the most highly valued stocks on the basis of P/E ratio (see the circled values in the table to the right). In fact, stocks in the index with P/Es below 15x as a group actually declined in price over the first ten months.

However, on November 9, Pfizer announced that its COVID vaccine candidate was found to be more than 90% effective and that it planned to apply for Emergency

## RUSSELL 1000 GROWTH INDEX CONSTITUENTS PERFORMANCE BY P/E GROUP

P/E GROUP <sup>(1)</sup>	PERFORMANCE 12/31/2019–10/30/2020 <sup>(2)</sup>	PERFORMANCE 10/30/2020–2/28/2021 <sup>(2)</sup>
>30x	39.7%	14.2%
25x–30x	36.2%	12.2%
20x–25x	3.1%	9.5%
15x–20x	7.0%	19.8%
0x–15x	-4.1%	16.7%

<sup>(1)</sup> P/E Calculated as Price-to-Earnings over next twelve months.

<sup>(2)</sup> Performance based on Total Returns over the period.

Source: FactSet

Use Authorization from the FDA. The development and distribution of several additional vaccines since then, along with unprecedented fiscal and monetary stimulus programs, have resulted in rising forecasts for economic growth. In turn, the earnings outlook for many non-FANGMA stocks has also improved.

In terms of market leadership, the change over the past four months has been striking. The second column of the table above shows the performance of the Russell 1000 Growth constituents since the end of October, and the best performance group over this period has been the lowest P/E stocks

(in contrast to their negative returns over the first 10 months of last year). Included in this group are many stocks that have experienced positive changes in earnings expectations recently, yet still sell at very reasonable valuations.

We view this broadening of market performance beyond the highest-valued stocks as a positive for the market as a whole and, in particular, for our “growth at a reasonable” price portfolio discipline. While the market will continue to face challenges in the months ahead, we believe that a focus on valuation as well as long-term growth opportunities will likely be well rewarded.

## RUSSELL 1000 GROWTH INDEX CONSTITUENTS ENDING WEIGHT IN VARIOUS P/E GROUPS AS OF 2/28/2021<sup>(1)</sup>

P/E GROUP <sup>(1)</sup>	RUSSELL 1000 GROWTH <sup>(2)</sup>	RENAISSANCE LARGE CAP GROWTH PORTFOLIO <sup>(2)</sup>	DIFFERENCE <sup>(3)</sup>
>30x	40.9%	22.6%	-18.3%
25x–30x	31.7%	24.5%	-7.2%
20x–25x	13.2%	27.8%	14.7%
15x–20x	7.4%	18.1%	10.7%
0x–15x	6.8%	6.9%	0.2%

<sup>(1)</sup> P/E calculated as Price-to-Earnings over next twelve months.

<sup>(2)</sup> Renaissance Large Cap Growth Portfolio weights based on a representative account.

<sup>(3)</sup> Cumulative total weighting may not add up to 100% due to rounding of percentages to the nearest decimal place.

<sup>(4)</sup> Percentages may not match the actual difference between the representative account and the benchmark due to rounding of percentages to the nearest decimal place.

Source: FactSet

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## DISCLOSURES

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## REFERENCED INDEX

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**Russell 1000 Growth Index**—The Russell 1000<sup>®</sup> Growth Index is a market capitalization weighted index that measures the performance of those Russell 1000<sup>®</sup> companies with higher price-to-book ratios and higher forecasted growth values.