

## 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

---

## DISCLOSURES

---

This Market Update reflects the thoughts of Renaissance as of March 8, 2021. This information has been provided by Renaissance Investment Management. All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. This is not to be construed as an offer to buy or sell any financial instruments and should not be relied upon as the sole factor in an investment making decision, nor should it be considered a recommendation. The views and opinions expressed are those of the Chief Investment Officer at the time of publication and are subject to change. There is no guarantee that these views will come to pass. As with all investments, there are associated inherent risks. Please obtain and review all financial material carefully before investing.

## PERFORMANCE

If Renaissance or benchmark performance is shown, it represents historically achieved results, and is no guarantee of future performance. Future investments may be made under materially different economic conditions, in different securities and using different investment strategies and these differences may have a significant effect on the results portrayed. Each of these material market or economic conditions may or may not be repeated. Therefore, there may be sharp differences between the benchmark or Renaissance performance shown and the actual performance results achieved by any particular client. Benchmark results are shown for comparison purposes only. The benchmark presented represents unmanaged portfolios whose characteristics differ from the composite portfolios; however, they tend to represent the investment environment existing during the time periods shown. The benchmark cannot be invested in directly. The returns of the benchmark do not include any transaction costs, management fees or other costs. The holdings of the client portfolios in our composites may differ significantly from the securities that comprise the benchmark shown. The benchmark has been selected to represent what Renaissance believes is an appropriate benchmark with which to compare the composite performance.

The value of an investment may fall as well as rise. Please note that different types of investments involve varying degrees of risk and there can be no assurance that any specific investment will either be suitable or profitable for a client or prospective client's investment portfolio. Investor principal is not guaranteed and investors may not receive the full amount of their investment at the time of sale if asset values have fallen. No assurance can be given that an investor will not lose invested capital. Consultants supplied with these performance results are advised to use this data in accordance with SEC guidelines. The actual performance achieved by a client portfolio may be affected by a variety of factors, including the initial balance of the account, the timing and amount of any additions to or withdrawals from the portfolio, changes made to the account to reflect the specific investment needs or preferences of the client, durations and timing of participation as a RIM client, and a client portfolio's risk tolerance, investment objectives, and investment time horizon. All investments carry a certain degree of risk, including the loss of principal and are not guaranteed by the U.S. government.

## RUSSELL DATA

FTSE Russell is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell<sup>®</sup> is a trademark of FTSE Russell. This presentation may contain confidential information and unauthorized use, disclosure, copying, dissemination or redistribution is strictly prohibited. This is a presentation of Renaissance Investment Management. FTSE Russell is not responsible for the formatting or configuration of this material or for any inaccuracy in Renaissance's presentation thereof.

## REFERENCED INDEX

*(Indices are unmanaged and are not available for direct investment.)*

**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.