

Thus far in 2023, stock market outperformers have had a much different flavor than experienced in the previous year. A look at the performance of stocks ranked by various factors shows a pronounced low-quality and “risk-on” profile for the stock market winners over the first six weeks of this year.

The table below shows the performance of stocks within the Russell 1000 Growth Index grouped by various criteria (or “factors”) by Bloomberg. Bloomberg ranks all the stocks in the index by a specific factor and then calculates the performance difference of the top 20% by each factor versus the performance of the bottom 20%. The process is repeated monthly. If the calculation yields a positive result, it suggests that the highest ranked stocks, on the basis of that factor, outperformed the lowest ranked stocks over the period measured.

Performance Difference Between Factors Russell 1000 Growth Index Constituents⁽¹⁾⁽²⁾

FACTOR	10 YEARS ENDING 12/31/2022	1 YEAR ENDING 12/31/2022	YEAR-TO-DATE ENDING 2/17/2023
5-Year Average ROIC	84.8%	51.9%	-10.4%
Free Cash Flow Yield	72.3%	43.5%	-10.5%
5-Year Operating Income Variability	28.5%	59.7%	-6.3%
Quality	25.2%	43.0%	-15.0%
Earnings Variability (Lower is Better)	-11.7%	-32.3%	11.6%
Beta	-37.7%	-42.8%	23.5%
1-Year Price Volatility	-56.1%	-46.3%	21.3%
Short Interest (Days to Cover)	-43.9%	-14.1%	3.0%

Bloomberg Factor Definitions

ROIC—5-Year Average Return on Invested Capital.

Free Cash Flow Yield—Ratio of Latest Free Cash Flow Per Share to Current Price.

5-Year Operating Income Variability—5-Year Operating Income (losses) Stability calculated as Standard Deviation Growth of Trailing 12-Month Operating Income (losses) over 5 Years.

Quality—A composite measure of profitability, leverage, and variability factors.

Variability—A composite measure of the variability of sales, earnings, and cash flows.

Beta—A measure of the sensitivity of a stock price's movement relative to a market index.

Volatility—A measure of daily stock price volatility over the past year.

Data ending 2/17/2023

⁽¹⁾ Hypothetical portfolios are assumed to be equally weighted and rebalanced monthly.

⁽²⁾ Past performance is not indicative of future results. All returns are shown in U.S. dollars. Returns are unannualized.

Source: Bloomberg

In 2022 and over the previous ten years, factors such as high return on invested capital, high free cash flow yield, and high quality led to strong outperformance for the highest ranked stocks on those measures. In contrast, stocks exhibiting high levels of earnings variability, beta, price volatility, and short interest underperformed stocks with lower levels of these characteristics in 2022 and over the previous ten years.

Thus far this year, however, these trends have been reversed. Stocks with higher betas and price volatility have been the biggest winners, while higher quality stocks and stocks with higher levels of profitability have lagged. While these trends may continue in the short term, we believe that higher quality stocks are likely to eventually regain their market leadership.

Over the long term we believe that adherence to a disciplined focus on high quality, highly profitable, and reasonably priced stocks is likely to continue to deliver good results.

DISCLOSURES

This Market Update reflects the thoughts of Renaissance as of February 17, 2023. 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 appropriate 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.

REFERENCED INDEX

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

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

RUSSELL DATA

FTSE Russell is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® 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.