Growth Stocks Outperform Value During the Pandemic

When you consider what makes a value stock a value stock, it would seem to stand to reason that value stocks would be leading all stocks during this global pandemic. After all, when the bottom dropped out of the market, there were some innocent bystanders who got swept up in the downward spiral.

While the Dow and S&P have been down, the tech-heavy Nasdaq has seen year-to-date gains, as of mid-May.

Many hard-charging tech stocks seemed to be tailor-made for the backdrop of a pandemic. Many of the so-called FAANG stocks have been in that category. Companies that offer entertainment, cloud services, computers, workplace collaboration software, video-conferencing services and online retailing have all benefited from the coronavirus pandemic. Most of these companies also occupy the growth sector.

Companies that have facilitated online payment processing, that also fall into the growth segment, have also seen increases in business.

In health care, the health tech companies have gained notice also with telemedicine-facilitators getting a big boost from the pandemic and the digital health sector in general has been one growth sector benefitting from a doctor-office-wary populace.

With people staying at home and playing online games, even companies that help facilitate gaming and video performance have seen their stocks thrive. Retailers, who previously invested in tech to get a competitive edge, have benefited during the stay-at-home period.

Growth Has Only Extended its Lead

Many of the growth stocks not only have proven to be pandemic-proof but also pandemic-enabled. During good times and bad, their business models have produced revenues while others have been stymied.

As a matter of fact, the coronavirus pandemic has helped lengthen the track record for growth stocks which outpaced value stocks during 2019. With some sectors enjoying good sales during the shutdown and others badly hurt, many of the stellar performers fall on the growth side of the equation.

Tech was well-placed for a pandemic where people had to stay at home and rely on technology for work and entertainment.

Through mid-May, growth stocks in the U.S. had a 22.5 percent advantage over their value counterparts. This is comparing the Russell 1000 growth and value indexes. The value sector has been in negative territory since mid-March.

Growth has emerged back into positive territory in late-May while value stocks have languished at a level that is approximately 20 percent lower than the beginning of the year.

Using the Russell indexes as a further measuring stick, value has lagged behind growth for much of the past decade. Since the Great Recession, and since the beginning of 2010, the Russell 1000 growth index is up 264 percent through May 20, 2020, while its value cousin is only up 91 percent in the same period.

Are there any value stocks that still offer any redeeming value? Some leading investment newsletters have mentioned a few exceptions among value stocks that have lower PE ratios and better price to book ratios that the S&P 500 average. Also, some dividend-paying value stocks have remained attractive.

In a world that must now accept a "new normal," many growth stocks should continue to offer a premium because of their products or services.

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Oil Prices See Uptick

It was big news for the stock market recently, when Saudi Arabia and Russia seemed to be at loggerheads over oil prices, and along with futures contracts, it looked like the price of oil was on a downward spiral.

Indeed, the price of oil hit a 20-year low by April 20. At that time, WTI crude had lost 38 percent and was down to only $11.30/barrel.

OPEC (the Organization of the Petroleum Exporting Countries) and its allies agreed to historic production cuts to stabilize prices, but they dropped to 20-year lows. OPEC includes Saudi Arabia, Iran, Kuwait, UAE, Algeria, Nigeria, Angola, Gabon, Congo, Equatorial Guinea, Libya, Iraq and Venezuela.

This was welcome news for consumers, who had seen a price spike in the prior year and had been paying higher

prices at the pump. Although the coronavirus pandemic, and the resulting stay-at-home orders, had greatly reduced oil consumption, newly unemployed drivers needed every break they could get.

With the substantial decrease in the demand for oil, there was an imbalance in the supply chain that resulted in a glut of oil on the market. What further compounded the problem was a lack of storage space for the oil that was no longer in demand.

Prices Rebound

By late May, the price of oil had hit a two-month high as optimism for a return-to-work economy and more leisure travel began to look feasible. Demand began picking up and by May 18, Brent crude had hit a nine-week high. The May rally had added nearly 70 percent to U.S. crude prices.

By May 25, the Brent Crude July Contract was up to $36.23. This was up from $23.07 nearly a month earlier. Brent Crude is different from oil produced in the U.S., which is often referred to as West Texas Intermediate, which is the U.S. benchmark. Brent Crude reflects North Sea production.

Buttress this increased demand with lowered production and you have the makings for price increases. Saudi Arabia is reducing output, beginning in June, by 1 million barrels a day. This will reduce production to a 20-year low.

The oil flowing into China has recently increased as the country has picked up production as viral hotspots have become more manageable. China and OPEC have recently announced that they are working together to work towards a "rebalancing process of oil supply and demand."

In a joint press release, the Chinese administrator of national energy administration said that "The country hopes to regain its former energy consumption patterns soon, which should help support the oil industry."

U.S. crude stockpiles fell in late May, helping with the concerns of an oil supply that had far outpaced demand. U.S. refiners increased their rate of processing and the stockpiles of oil distillates, which account for diesel and heating oil, both rose.

Brent crude is projected to reach a price of $45/barrel in the second half of the year. Depending on the strength of a recovery, watch for prices at the pump to edge up.

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