

LE COIN TECHNIQUE

Rotation from Growth into Value versus U.S. 10-year Yield and S&P500

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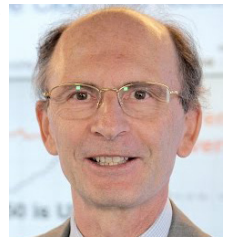
Since mid-August, there is a major rotation within the equity space from growth stocks into value stocks. This rotation is displayed by a declining ratio of two ETF, namely EFG and EFV: on the numerator EFG is representing the iShares MSCI EAFE Growth ETF, while on the denominator EFV is the iShares MSCI EAFE Value ETF. (EAFE is Europe, Austral Asia, and Far East).

From January 2019 to mid-August, the ratio was accelerated upward at a very steep rate and breaking above the previous high (1.64 in July 2017) to reach near 1.76. Then, the ratio reversed to displays successive lower highs & lows toward 1.67.

Interesting to note that this outperformance of value stocks versus growth stocks occurs now at the same time as U.S. 10-year interest rate is rising (green surface on the chart) in a very similar fashion as it did during the period from July to December 2016. Of course, since the financial crisis of 2008, we show with the rising green arrows other similar periods of outperformance of value versus growth stocks in Q2-Q4 of 2009, Q1 of 2011, Q3-Q4 of 2012, which coincided with periods of rising U.S. 10-year yield. So, this seems to be a recurring pattern.

We expect this current period of value outperformance versus growth to last two quarters, based on the momentum of the ratio, which (currently near 53%) is far from

its oversold area (below 20%), where it used to turn up to signal the end of its period of decline. Further, we like to note that during those similar periods of rising yield and declining ratio EFG/EFV, the S&P500 was rising, though not always in a straight line as can be seen on the upper panel of the chart.



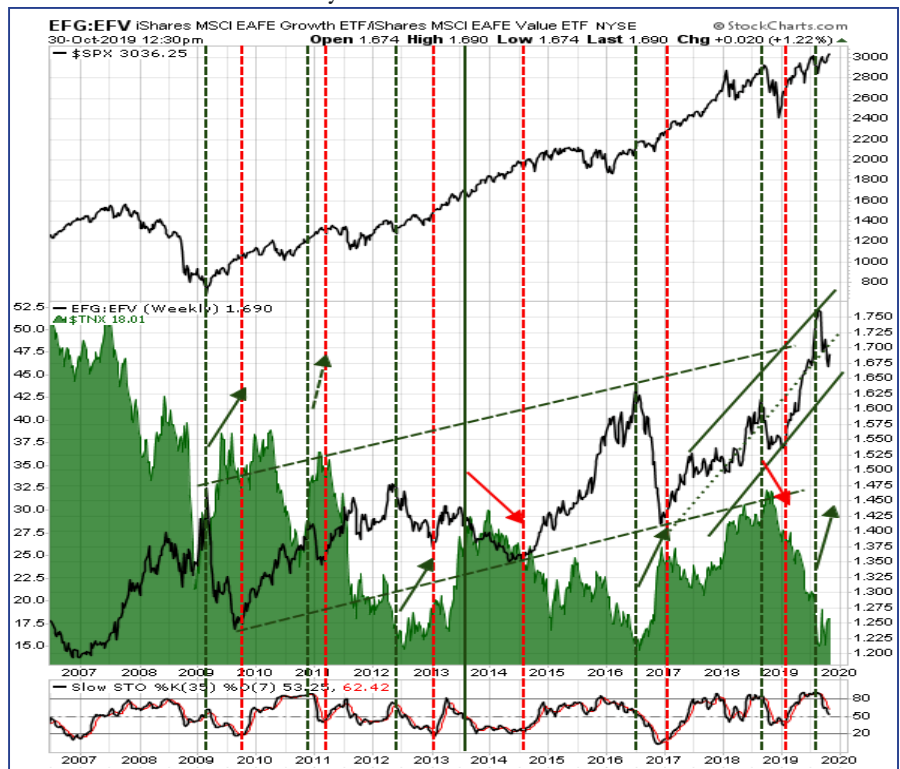
We believe that this ratio will continue to make lower lows as the U.S. 10-year yield will soon be making higher highs above 1.90%, after anchoring already since late August higher lows. Maybe, we could envision that outperformance of value stocks, which is also reflected in the recent rising relative strength of the U.S. financials sector, will also spill over to the industrials sector. Further, this outperformance of value over growth, coupled with rising U.S. 10-year yield, could also revive the expectation of a potential reflation, influencing positively the relative strength of other laggard U.S. sectors, like materials and energy. This fourth quarter of 2019 could be very different from last year!

Graph:

The weekly ratio of EFG/EFV (iShares MSCI EAFE Growth ETF / iShares MSCI EAFE Value ETF NYSE) is the black line of the central panel of the chart together with the weekly close of the U.S. 10-year yield (green surface on left scale). The top panel displays the weekly chart of the S&P500 since 2007. The lower panel is a special long term (K35-D7) weekly STO of the ratio of EFG/EFV, whose crossing is coinciding with the vertical green and red lines marking periods of the start to the end of underperformance of growth versus value. Rising green arrows or declining red arrows are displayed within those periods of declining ratio EFG/EFV (underperformance of growth versus value) to confirm the direction of the U.S. 10-year yield. A declining ratio EFG/EFV seems to correlate more often with rising than with declining U.S. 10-year yield!

Source: Stockcharts.com

Vertical lines and arrows are proposed by BEST.



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