

LE COIN TECHNIQUE

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

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the iShares MSCI EAFE Value ETF. (EAFE is Europe, Australasia, and the Far East).

As the ratio is declining since November 2020, this represents a period of outperformance of Value over Growth. This outperformance occurs now at the same time as the US 10-year interest rates are rising (green surface on the chart) in a similar amplitude as it did from July-December 2016, from September 2018-to January 2019, and from August 2019-December 2019. The previous periods have lasted for 5-6 months. We expect this current period of Value outperformance versus Growth to last one or two more months as the momentum of the ratio, which (currently near 19%) is nearing the oversold area (below 20%), where it used to turn up to signal the end of its period of decline. The period of Value outperforming Growth does not systematically call the market direction. During the first two periods, the S&P500 was pausing or pulling down sharply, while in the two most recent periods, the S&P500 was rising. Currently rising, the US bond yield is a drag on Growth shares because of their high valuation. Growth is mostly represented by technology stocks that have

recently underperformed the more economically sensitive Value stocks like energy, financials, and industrials, as more optimism on an economy with higher inflation is suggested by higher US yields.

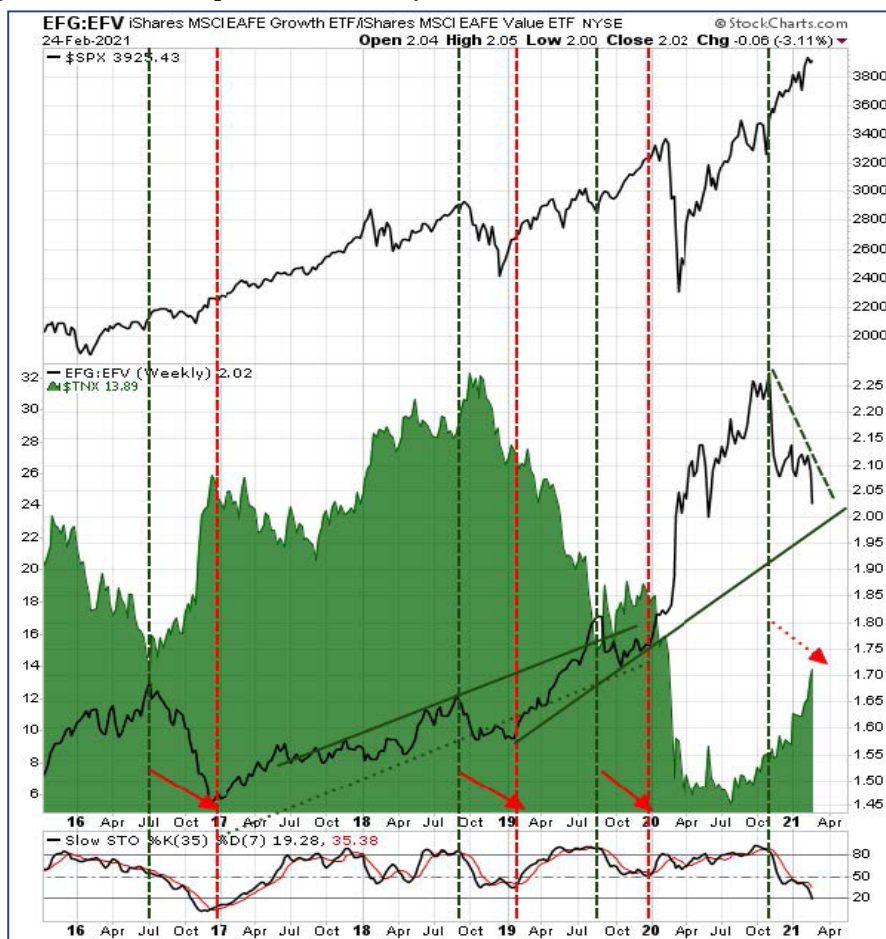
These sector rotation periods are periods where in theory active asset managers could outperform if they have market timing skills applied to Growth versus Value stocks. But this is a difficult task as so far the periods where Value outperformed Growth were much shorter. But this may change as well as the ratio of Growth versus Value has been declining since October 2020 with lower highs and lower lows. This could initiate an emerging downtrend lasting more than 6 months, which should be confirmed when the ratio breaks near 2.00 the rising trendline which has been in place since January 2019.

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 US 10-year yield (green surface on left scale). The top panel displays the weekly chart of the S&P500 since October 2015. 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. Declining red arrows are displayed within those periods of declining ratio EFG/EFV (underperformance or Growth versus Value) and often this correlates with a period of higher US 10-year yield.

Source: Stockcharts.com

Vertical lines and Arrows are proposed by...



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