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Snapshot

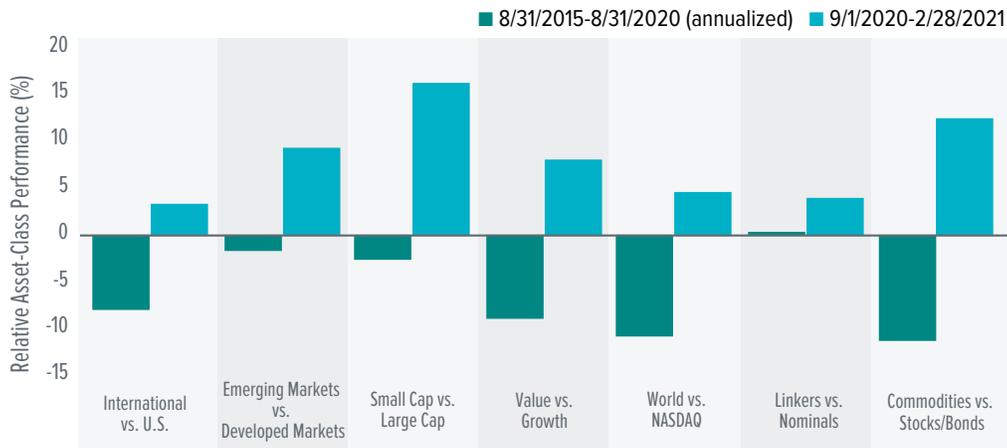
- › In September 2020, we began to witness a rotation out of a concentrated group of long-favored U.S. growth stocks and into a broader group of beaten-down assets, such as value stocks, that are more economically sensitive.
- › Market and economic conditions appear supportive of a continued rotation as markets reprice expectations for higher corporate earnings and a return to typical economic activity amid increasing COVID-19 vaccination rates, the impact of fiscal relief, and a return to more typical economic activity.
- › We believe there remains an opportunity to benefit from investing in value stocks despite recent gains in the asset class.

September 2020 saw the beginning of a rotation out of the narrow concentration of U.S. growth and technology-focused stocks (as measured by the Russell 1000 Growth Index) that have outperformed the broader equity markets over the last several years and into a broader group of beaten-down assets (as measured by the Russell 1000 Value Index) that are more economically sensitive. This rotation has been supported by a broadening earnings recovery, favorable developments on the COVID-19 vaccine front, and expanded fiscal support. Improving growth and inflation expectations have further sparked market reversals from U.S. technology stocks toward a wider range of equities—particularly international and emerging markets as well as small-cap and value stocks; this environment has also boosted inflation-related assets (such as commodities and Treasury inflation-protected securities). From a top-down perspective, market and economic conditions also appear supportive of a continued rotation as markets reprice expectations for higher corporate earnings and a return to typical economic activity amid increasing COVID-19 vaccination rates and the impact of fiscal relief.

A change in leadership

Investor sentiment toward cyclical and value stocks has strengthened since September 2020 at the expense of growth stocks, driven by building optimism for faster vaccine rollouts, significant fiscal stimulus, and economic recovery. Following this positivity, the impact of rising inflation expectations and interest rates have worked to pressure the valuations of growth stocks; as the earnings of growth companies are priced further into the future than value stocks, higher rates will discount the present value of those future earnings to a greater extent. Exhibit 1 shows the recent reversal in market leadership.

Exhibit 1: Laggards Turn Leaders



Source: Bloomberg, SEI. Data as of 2/28/2021. Asset-class proxies: International = MSCI World ex-USA Index, U.S. = MSCI USA Index, Emerging Markets = MSCI Emerging Markets Index, Developed Markets = MSCI World Index, Small Cap = Russell 2000 Index, Large Cap = Russell 1000 Index, Value = MSCI World Value Index, Growth = MSCI World Growth Index, World = MSCI World Index, NASDAQ = Nasdaq-100 Index, Linkers = ICE BofA 7-10 Year US Inflation-Linked Treasury Index, Nominals = ICE BofA 7-10 Year US Treasury Index, Commodities = Bloomberg Commodity Index, Stocks/Bonds = 50% MSCI World Index/50% ICE BofA 7-10 Year US Treasury Index.

All indexes are in U.S. dollar and total return. Index returns are for illustrative purposes only and do not represent actual fund performance. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance is not a reliable indicator of future results.

How much of an opportunity?

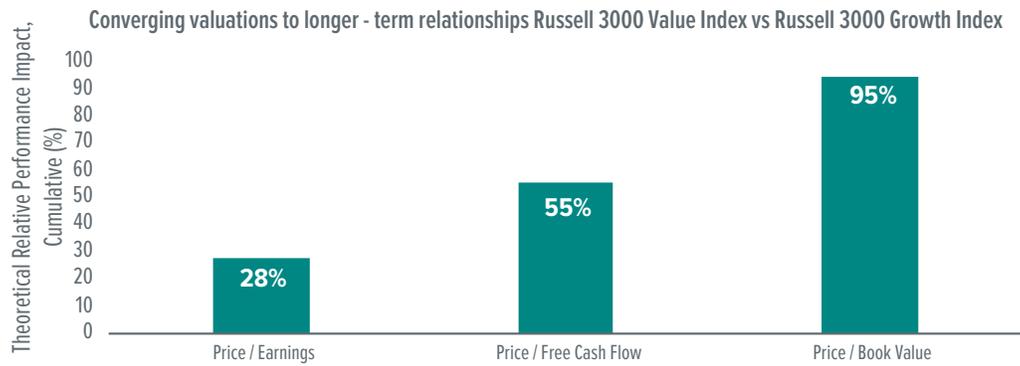
As economically sensitive and cyclical areas of the economy continue to gain traction, we believe the recovery in valuations of these sectors should have plenty of room to run. Growth stocks, which inherently carry higher valuations compared to the broader market, have seen premiums on several metrics rise to levels well above longer-term averages. While some of this disparity has unwound in recent months, we believe the current environment remains attractive for value stocks fostered by several catalysts.

Valuations remain attractive

Valuations alone, whether frothy or underpriced, aren't always a catalyst for performance—but we believe they are an essential consideration. Long-term relationships between a stock's price and the fundamentals of its business usually hold up for good reason and should not vary by large degrees for extended periods; history shows that eventual reversions toward the mean among these long-term relationships are likely. In our view, today's valuation spreads within the U.S. equity market present an attractive relative-return opportunity.

Exhibit 2 highlights this opportunity by looking at the possible convergence of some common metrics to longer-term averages. For example, if the current ratio of price-to-earnings for the Russell 3000 Value Index relative to the Russell 3000 Growth Index were to return to its historical average, the Russell 3000 Value Index would outperform the Russell 3000 Growth Index by about 28%. Other ratios show the potential for even greater outperformance.

Exhibit 2: Room to Run



Source: FactSet, SEI, using monthly data from 1/1/1998 to 12/31/2020. Valuation metrics are trailing or forward-looking based on estimates provided by FactSet. Trailing metrics: Price/Free Cash Flow, Price/Book Value of Equity. Forward valuation metrics (two fiscal years): Price/Earnings. Theoretical performance assumes no time constraint for the convergence. The projections or other scenarios in this presentation are purely hypothetical and do not represent all possible outcomes. They do not reflect actual investment results and are not guarantees of future results. All opinions and estimates provided herein, including forecast of returns, reflect our judgment on the date of this report and are subject to change without notice. These opinions and analyses involve a number of assumptions which may not prove valid.

Despite recent strength in value stocks over the last few months, if we continue to see a repricing in the sentiment between growth and value to these longer-term relationships, the relative-return opportunity for value should remain attractive.

Vaccines foster economic recovery

In addition to valuations, we expect the wider distribution of vaccines and normalizing of economic activity will help sustain the gradual strengthening of investor sentiment toward value and economically sensitive cyclical stocks. Growing vaccine adoption and an optimistic rollout timeline have already boosted expectations that government-imposed restrictions may soon be lessened.

Government stimulus helps

We have also seen an unprecedented amount and coordination of monetary and fiscal policies around the world, particularly in the U.S. Generous stimulus packages have provided incentives for consumers to increase spending and raise economic activity. Although the yield on longer-term Treasuries has shot higher in response, Exhibit 3 shows that it remains near the lower end of historical levels.

Exhibit 3: Rates Riding Higher



Source: Federal Reserve of St. Louis. Data as of 3/18/2021.

Despite the Federal Reserve signaling that it expects to keep short-term rates at record lows for the next several years, and assuming the economy continues to strengthen over the next six months, we expect longer-term interest rates to move higher as well—a move that would continue to favor the recent change in market leadership.

Investing vs. speculation

Investors may be tempted to chase trends or pursue narrow market-leadership segments when conditions in the markets change. We believe a balanced portfolio—shaped by diversification, risk mitigation and active positioning—is better equipped to withstand changing markets and performance trends over time. By taking a steady approach to achieving your financial goals you may not need to change your strategy every time the market moves up or down.

Glossary

Diversification refers to an investment strategy designed to balance risk and reward in a portfolio by spreading investments across a range of asset classes.

Fiscal stimulus refers to government policies designed to drive economic growth by cutting taxes or increasing government spending.

Monetary policy refers to the management of money supply and interest rates used by central banks.

Price/Book Value of Equity compares the market capitalization of a company to its the value of its net assets.

Price/Earnings compares the share price of a company to its per-share earnings.

Price/Free Cash Flow compares the market capitalization of a company to cash that the company has left over after it pays operating expenses and capital expenditures.

Treasury yield refers to the interest rate paid by the U.S. government on its debt obligations

Index Definitions

Bloomberg Commodity Index: tracks the prices of futures contracts on physical commodities on the commodity markets. The index is designed to minimize concentration in any one commodity or sector.

ICE BofA 7-10 Year US Inflation-Linked Treasury Index: measures the performance of U.S. dollar-denominated inflation-linked sovereign debt publicly issued by the U.S. government with an average remaining maturity between 7 and 10 years.

ICE BofA 7-10 Year US Treasury Index: measures the performance of U.S. Treasury bonds with an average remaining maturity between 7 and 10 years.

MSCI Emerging Markets Index: measures the performance of global emerging-market equities.

MSCI USA Index: measures the performance of the large- and mid-cap segments of the U.S. market.

MSCI World Index: measures the equity market performance of developed markets.

MSCI World ex-USA Index: measures the equity market performance of developed markets outside the U.S.

MSCI World Growth Index: measures the equity market performance of large- and mid-cap securities exhibiting overall growth style characteristics across developed-market countries.

MSCI World Value Index: measures the equity market performance of large- and mid-cap securities exhibiting overall value style characteristics across developed-market countries.

Nasdaq-100 Index: measures the equity market performance of the 100 largest, most actively traded U.S. companies listed on the Nasdaq stock exchange (with the exception of financial-industry stocks).

Russell 1000 Index: measures the activity of the U.S. large-cap equity market.

Russell 1000 Growth Index: measures the performance of the large-cap growth segment of the U.S. equity universe.

Russell 1000 Value Index: measures the performance of the large-cap value segment of the U.S. equity universe.

Russell 2000 Index: measures the activity of the U.S. small-cap equity market.

Russell 3000 Index: measures the performance of the 3000 largest 3000 U.S.-traded stocks.

Russell 3000 Growth Index: measures the performance of the broad growth segment of the U.S. equity universe.

Russell 3000 Value Index: measures the performance of the broad value segment of the U.S. equity universe.

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