

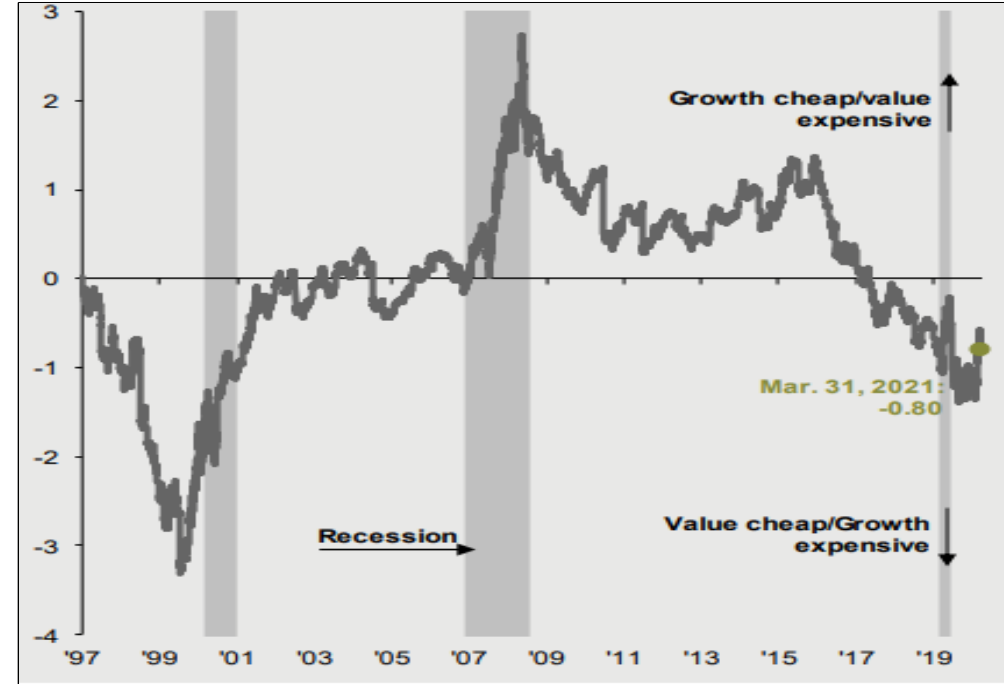
*“Even if you are on the right track, you’ll get run over if you just sit there” – Will Rogers*

We’re going to take a break from headline news and give an update on market fundamentals and valuations. JPMorgan’s [Guide to the Markets](#) was released earlier today. If you have never looked at it before, it’s essentially a collection of economic and market data arranged as charts and tables for easy consumption. It gets released every quarter and always has a few interesting charts mixed in with standard valuation and economic data. This time around there were a good number of charts on relative valuations between Value/Growth styles and U.S./International markets. We will briefly explore both using data from that report.

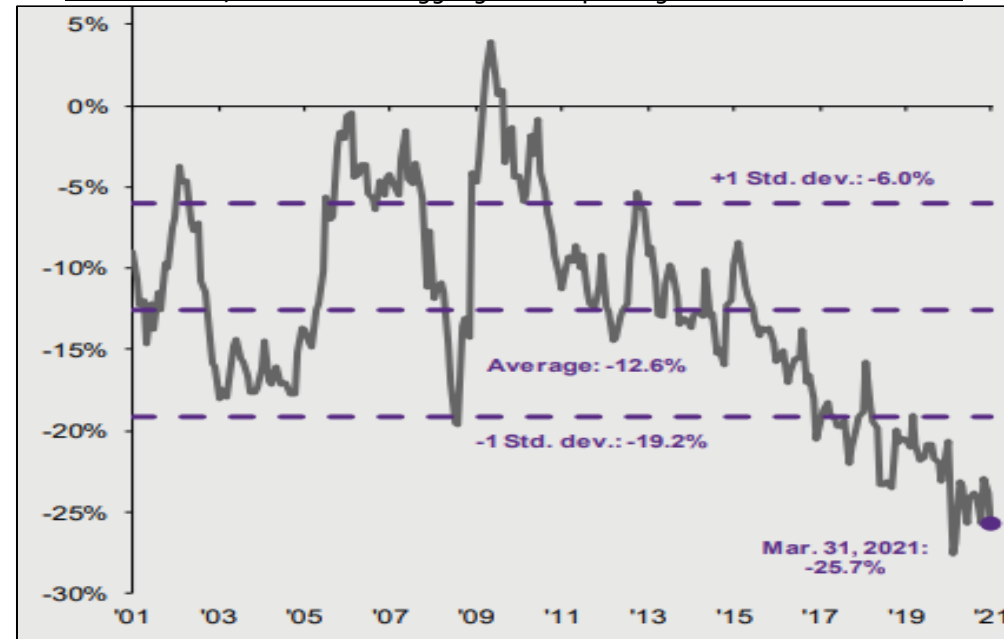
Since the beginning of this year, the S&P 500 Value Index has outperformed the S&P 500 Growth Index by ~7.9% (11.6% vs. 3.7%). We’ve talked before about how the market sometimes gives indications of a leadership reversal, only to immediately jump back to “growth” sector leadership. This time does seem like there is more substance to the market shift and the relative performance trend line has started looking positive for value (see chart, top right). That’s more of an observation than a prediction. Commodity prices are increasing which helps Energy and Materials companies. Both of those are considered value sectors. Economic growth is projected to be very strong and (according to JPMorgan) Industrials and Financials are the most highly correlated sectors to real growth in GDP since 2009. Those are both considered value sectors as well. So after years of the market not caring about the high price multiples paid for growth companies, investors seem like they are finally ready to admit that some prices are just too rich compared to reasonable earnings expectations. Even with global earnings growth rates at elevated levels, all but one major equity market is trading above their respective 25-year average price-to-earnings (P/E) ratio. Japan is the only exception right now. Japan also has the highest 25-year average P/E ratio at 20.4x earnings.

United States versus International equity markets are a different story though. Since the beginning of the year, the S&P 500 has outperformed the MSCI ACWI ex US index by ~2.8% (7.4% vs. 4.6%). We’ve long discussed when this reversal in relative performance might take place. Given the relative valuation discrepancy, we have been reallocating assets to international markets, but it seems more stubborn call amidst the pandemic backdrop than value vs. growth. The fact that the U.S. government had such a large monetary and fiscal response to the pandemic relative to other countries didn’t help relative performance of international markets. If this continues throughout the year, we might reach a historic valuation discount level for international equity markets versus the US. Historically, this international valuation discount relative to the US has been around 10-12% depending on how far back you measure. Currently, it’s around -26% (see chart, bottom right). Since 1971, there have been 10 cycles of market outperformance between international and US markets. Per JPMorgan, the current US leadership has lasted 13.3 years, the longest over that period. We continue to believe that there is a lot of promise in international and emerging market equities. Emerging markets saw far less earnings loss during 2020 than the US and is now projected to grow earnings at +37% for 2021 versus +26% for the US. We never know the timing, but international equities will have their day again. – Alex Jantsch, CFA

Value vs. Growth P/E: Value Still Has Upside, Amidst Strong Expected Real GDP Growth



U.S. vs. Int'l P/E: Int'l Still Struggling To Compete Against U.S. Market Returns



Sources: [Top](#) – JPMorgan; [Bottom](#) – JPMorgan

# Market Rates & Returns

All returns are total returns and are annualized past 1-year. All rates are snapshots, as of the date noted. Source: Bloomberg LP

Data As Of: 4/2/2021

Asset Class	Sub-Asset Class	Index	YTD	1-Year	3-Year	5-Year	10-Year	2020
Equity	U.S. Large Cap Equities	S&P 500	7.42%	61.77%	18.09%	16.49%	13.97%	18.39%
Equity	U.S. Mid Cap Equities	S&P 400	15.15%	95.34%	14.82%	14.82%	11.97%	13.65%
Equity	U.S. Small Cap Equities	Russell 2000	14.39%	109.98%	16.23%	16.80%	11.76%	19.93%
Equity	Developed ex. U.S. Equities	MSCI ACWI ex U.S.	4.66%	55.86%	7.46%	10.90%	5.45%	11.23%
Equity	Emerging Markets Equities	MSCI Emerging Mkts	3.91%	63.37%	7.46%	13.14%	3.99%	18.79%
Fixed Income	Broad Aggregate	BB Aggregate	-3.28%	0.64%	4.66%	3.12%	3.44%	7.51%
Fixed Income	U.S. Treasury	BB U.S. Treasury	-4.20%	-4.83%	4.08%	2.23%	2.90%	8.00%
Fixed Income	U.S. Treasury Inflation Prot.	BB U.S. Inflation Linked	-1.76%	5.80%	5.78%	3.96%	3.49%	11.54%
Fixed Income	U.S. Investment Grade	BB U.S. Invest. Grade	-4.32%	9.38%	6.29%	4.96%	5.04%	9.89%
Fixed Income	U.S. High Yield	BB U.S. High Yield	1.03%	25.73%	6.93%	8.06%	6.46%	7.11%
Fixed Income	U.S. Leveraged Loans	CS Leveraged Loan	2.04%	21.11%	4.14%	5.32%	4.39%	2.78%
Fixed Income	U.S. Municipals	BB Municipal Bond	-0.27%	8.27%	4.90%	3.49%	4.55%	5.21%
Fixed Income	Non-U.S. Gov't Bond	FTSE Non-U.S. WGBI	-6.27%	6.28%	0.90%	1.92%	1.16%	10.78%
Fixed Income	Emerging Markets Debt	JPMorgan EMBI	-4.38%	15.91%	4.03%	4.80%	5.36%	5.88%
Real Assets	Real Estate	FTSE NAREIT	11.10%	53.09%	10.71%	5.83%	8.77%	-8.00%
Real Assets	Master Limited Partnerships	Alerian MLP	24.55%	103.00%	-2.10%	-0.04%	-0.80%	-28.84%
Real Assets	Broad Commodities	Bloomberg Commodity	7.40%	36.21%	-1.16%	1.67%	-6.87%	-3.50%
Real Assets	Oil	WTI Crude	26.65%	142.69%	-0.83%	10.80%	-5.48%	-20.54%
Real Assets	Gold	Gold COMEX	-8.90%	6.20%	8.76%	7.15%	1.92%	24.42%

Key Market Interest Rates	Current Rate	1 Month Ago	2 Months Ago	3 Months Ago	4 Months Ago	6 Months Ago	1 Year Ago
Federal Funds Rate	0.07%	0.07%	0.08%	0.09%	0.09%	0.09%	0.05%
Secured Overnight Fin. Rate (SOFR)	0.01%	0.04%	0.07%	0.07%	0.08%	0.08%	0.01%
90-Day Treasury Rate	0.01%	0.03%	0.05%	0.06%	0.07%	0.08%	0.00%
2-Year Treasury Rate	0.19%	0.14%	0.11%	0.12%	0.15%	0.13%	0.23%
5-Year Treasury Rate	0.98%	0.73%	0.42%	0.36%	0.39%	0.27%	0.38%
10-Year Treasury Rate	1.72%	1.48%	1.08%	0.91%	0.91%	0.68%	0.60%
30-Year Treasury Rate	2.36%	2.28%	1.85%	1.64%	1.65%	1.46%	1.24%
3-Mon/10-Yr Treasury Spread	1.72%	1.45%	1.03%	0.85%	0.84%	0.60%	0.60%
2-Yr /10-Yr Treasury Spread	1.54%	1.34%	0.97%	0.79%	0.76%	0.55%	0.37%
6-Month CD Rate	0.18%	0.20%	0.21%	0.26%	0.27%	0.30%	0.49%
1-Year CD Rate	0.33%	0.34%	0.36%	0.39%	0.40%	0.44%	0.67%
2-Year CD Rate	0.37%	0.38%	0.40%	0.43%	0.45%	0.48%	0.74%

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