

Quick Take: A Multiple Expansion-Driven Rally

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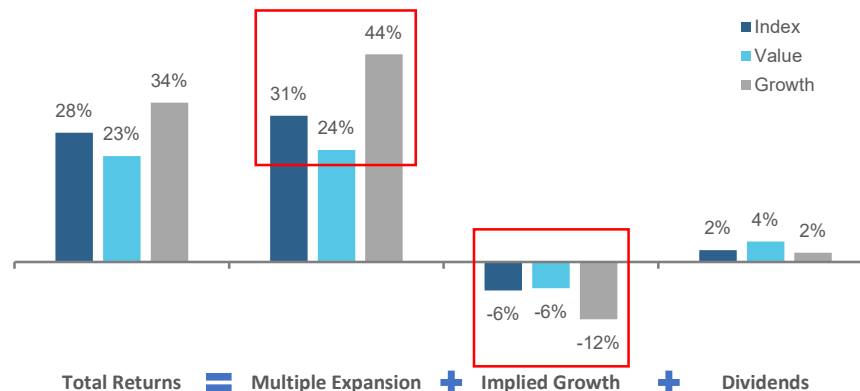
Global equities rallied further in Q4 2019 even as earnings continued to decline.

- For 2019 whole, in fact, equity returns were attributable to multiple expansion rather than improving fundamentals. (See returns decomposition, top-right.)
- We've observed similar patterns historically when the market has rebounded from economic downturns before actual earnings have caught up, e.g., the recovery phase after the GFC and the TMT bubble. What makes the current circumstance noteworthy is that it wasn't preceded by such severe economic deterioration.

Growth has benefited more than Value; monitor spreads.

- Multiple expansion also explains Growth's outperformance relative to Value in 2019, also evident in the decomposition. What's more, Growth stock forward PEs show that the market is pricing in above average earnings growth while Value forward PEs are consistent with historical norms (bottom right). Value stocks outside the U.S. trade at greater discounts relative to their Growth counterparts.
- In our recent piece, "[Returns to Value: A Nuanced Picture](#)," we noted that P/E-based spreads were not as stretched as P/B-based spreads as of year-end 2018. But they are worth monitoring should the multiple expansion-driven rally continue.

2019 Returns Decomposition for MSCI World



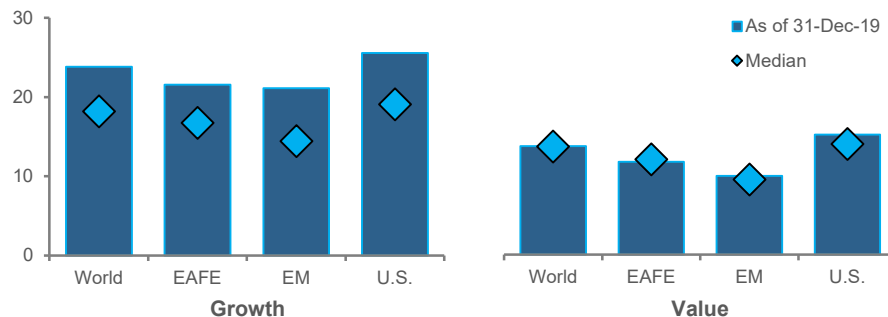
USD net total returns, USD price returns, price to trailing 12-month earnings for MSCI World, MSCI World Growth, MSCI World Value. Sources: Acadian, Bloomberg, MSCI. Copyright MSCI 2020. All Rights Reserved. Unpublished. PROPRIETARY TO MSCI. For illustrative purposes only. It is not possible to invest directly in an index. Every investment program has the opportunity for losses as well as profits. Past results are not indicative of future results.

Value Revisited

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For more insights on Value, please visit our [website](#).

Current vs. Historical Forward P/Es



Price to forward 12-month earnings to MSCI World (Mar 98 - Dec 19), MSCI U.S. (Mar 98 - Dec 19), MSCI EM (Sep 05 - Dec 19) and MSCI EAFE (Sep 05 - Dec 19). Sources: Acadian, Bloomberg, MSCI. Copyright MSCI 2020. All Rights Reserved. Unpublished. PROPRIETARY TO MSCI. For illustrative purposes only. It is not possible to invest directly in an index. Every investment program has the opportunity for losses as well as profits. Past results are not indicative of future results.

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