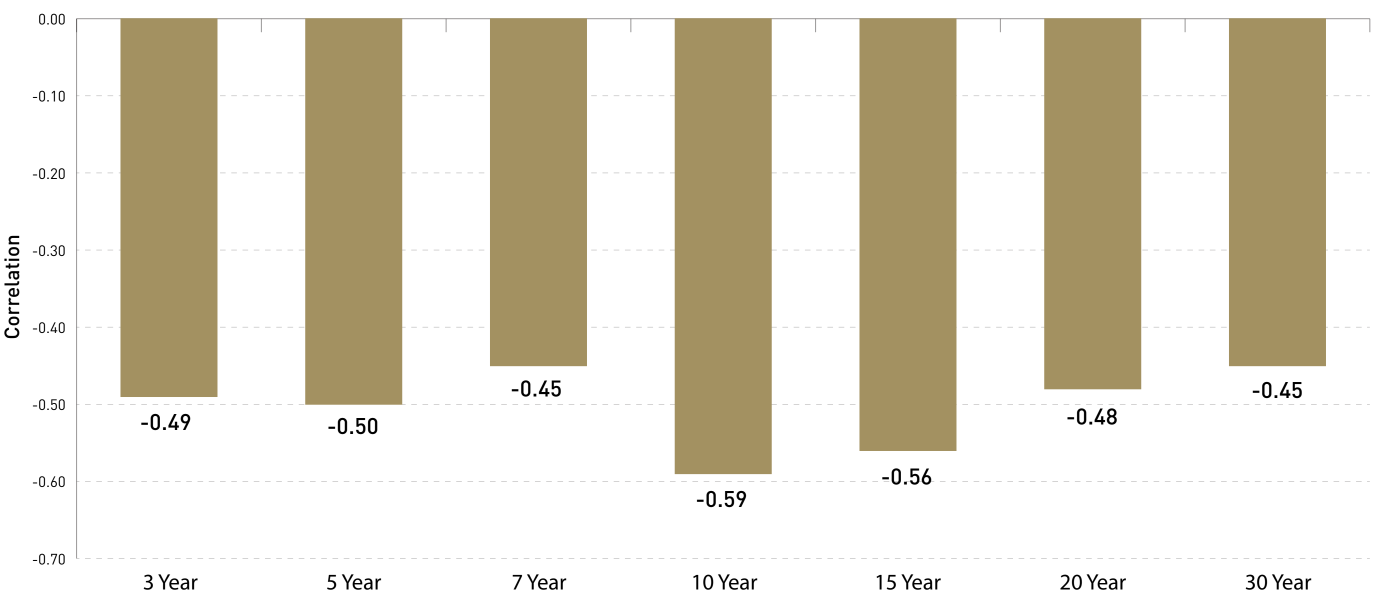
Equities:

Harnessing Their Current Potential

Growth stocks were the leaders, but not the only story, in the U.S. equity market's impressive 2019 first quarter recovery.

Contributing Strategist
Trent Houston, CFA
Fixed Income Product Strategist

Chart 1. Momentum and Value are Negatively Correlated
*Correlation of momentum factor and value stocks, (Trailing periods ended March 31, 2018)**



In Brief

- Momentum and size (e.g. smaller-cap companies) joined growth as key factors in the 2019 first quarter U.S. equity market recovery.
- The resumption of growth outperformance over value highlights why it is important for investors to maintain a well-diversified portfolio that incorporates consistent exposure to both styles.
- The reemergence of size and momentum as performance drivers alongside growth's outperformance makes the case for an active approach to growth that can capture momentum in the market—and isn't beholden to a market-cap weighted portfolio structure.

Source:Axioma. *Most recent data available.
Past performance is not a reliable indicator or a guarantee of future results. The historical data are for illustrative purposes only, do not represent the performance of any specific portfolio managed by Lord Abbett or any particular investment, and are not intended to predict or depict future results

U.S. equities (as represented by the S&P 500® Index) posted a 13.65% return in the first quarter of 2019, rebounding from a dismal fourth quarter of 2018. The 2019 first quarter results marked the best quarter for U.S. stocks since 2009 and the best first quarter since 1998.

Growth Leadership

The equity market recovery was led, at a high level, by the same driver that had propelled the market to new highs throughout 2017 and the first three quarters of 2018: growth market leadership, paced by technology stocks, which posted a nearly 20% return for the first quarter of 2019.

Table 1. Growth Stocks Took the Lead, But Value Wasn't Far Behind

First quarter 2019 returns of various indexes, (as of March 31, 2019)

INDEXES	FIRST QUARTER 2019 RETURN
S&P 500 Growth TR USD	14.95
S&P 500 TR USD	13.65
S&P 500 Value TR USD	12.19

Source: Morningstar Direct, S&P Dow Jones Indexes. TR = total return.

Past performance is not a reliable indicator or a guarantee of future results. The historical data are for illustrative purposes only, do not represent the performance of any specific portfolio managed by Lord Abbett or any particular investment, and are not intended to predict or depict future results. Indexes are unmanaged, do not reflect deduction of fees and expenses and are not available for direct investment.

Momentum and Size

While growth's outperformance was certainly a key theme in the first quarter, it wasn't the only driver of the equity market rebound. In fact, at the factor level, momentum had an even greater impact on first quarter S&P 500 Index performance, returning 16.6%. It is also notable that size (e.g., smaller-cap companies) had an effect on the strong first quarter with the equal-weighted S&P 500 Index outperforming the standard S&P 500 market-cap weighted index.

Table 2. Momentum and Size Were Key Factors Behind 2019 First Quarter Performance

First quarter 2019 returns of various indexes, (as of March 31, 2019)

INDEXES	FIRST QUARTER 2019 RETURN
S&P 500 Momentum TR USD	16.61
S&P 500 Quality TR USD	16.00
S&P 500 Equal Weighted TR USD	14.91
S&P 500 TR USD	13.65
S&P 500 Low Volatility TR USD	13.62

Source: Morningstar Direct, S&P Dow Jones Indexes. TR = total return.

Past performance is not a reliable indicator or a guarantee of future results. The historical data are for illustrative purposes only, do not represent the performance of any specific portfolio managed by Lord Abbett or any particular investment, and are not intended to predict or depict future results. Indexes are unmanaged, do not reflect deduction of fees and expenses and are not available for direct investment.

Harnessing the Potential

So what lessons can investors take away from the first quarter? With growth recently resuming its market leadership, it is clear that predictions of the growth rally's demise were premature. In our opinion, an allocation to growth remains a critical component of a diversified portfolio. However, the reemergence of size and momentum as performance drivers alongside growth's outperformance makes the case for an active approach to growth that can capture momentum in the market. In fact, in the context of portfolio construction it is momentum, not growth alone, which has persistently exhibited negative correlation with value stocks, which also should be part of a well-diversified portfolio. (*See Chart 1*)

Why an Active Approach?

Momentum is not a static factor and can be subject to swift shifts, which is why an active approach may be imperative for harnessing the power of momentum. In addition, the outperformance of smaller-cap stocks relative to larger-cap stocks also makes the case for an active approach relative to a standard cap-weighted passive approach. Informational inefficiencies in small-cap stocks historically have provided skilled asset managers with an informational advantage in this market segment. (Lord Abbett investment strategist explores this idea in greater detail in our new podcast.)

Certainly, as investors seek out fast-growing stocks in a slowing-growth world, the relatively higher rate of growth of smaller-cap stocks, historically, looks very attractive when compared to the stocks that populate the top of common market-cap weighted growth indexes like the Russell 1000 Growth Index.

Table 3. Many of the "Top 20 Growth Companies" are Slow-Growth and High-Yielding

Top 20 companies in the Russell 1000 Growth Index, by market capitalization (as of December 31, 2018)

HOLDING	DIVIDEND YIELD (%)	HISTORICAL 3-YEAR SALES GROWTH (%)*	PRICE TO EARNINGS FY1
Apple, Inc.	1.8	4.7	12
Microsoft Corporation	1.7	8.4	22.9
Amazon.com, Inc.	--	27.3	75.2
Alphabet Inc. Class A & C**	--	21	24.8
Facebook, Inc. Class A	--	42.5	17.8
UnitedHealth Group Incorporated	1.4	14.4	19.5
Visa, Inc. Class A	0.7	14.1	24.8
Home Depot, Inc.	2.4	6.8	17.5
Mastercard Incorporated Class A	0.5	14.8	29.2
Boeing Company	2.1	0.4	21.3
Coca-Cola Company	3.3	-10.4	22.7
AbbVie, Inc.	3.9	13.7	11.6
PepsiCo, Inc.	3.2	0.1	19.5
Walt Disney Company	1.6	4.6	15.6
Amgen, Inc.	2.7	3.4	13.7
Netflix, Inc.	--	30	101.1
Adobe, Inc.	--	23.9	29.1
PayPal Holdings, Inc	--	18.3	35.1
Salesforce.com, Inc.	--	25.7	52.5
Union Pacific Corporation	2.2	-0.3	17.6

Source: FactSet. Top 20 companies in the Russell 1000 Growth Index, by market capitalization. *Historical 3-Year Sales Growth data as of 12/31/2018. **Alphabet, Inc. Class A and Class C share holdings have been combined. Price to earnings FY1 ratio shown is an average of the two share classes.

The historical data are for illustrative purposes only, do not represent the performance of any specific portfolio managed by Lord Abbett or any particular investment, and are not intended to predict or depict future results. The securities and data are for information only. It does not constitute a recommendation or an offer for a particular security, nor should it be taken as a solicitation or recommendation to buy or sell securities or other investments, and should not be used as the basis for any investment decision. Due to market volatility, the market may not perform in a similar manner in the future.

Summing Up: Multiple Angles on Equities

The growth-led equity rebound in the first quarter highlights why it is important for investors to maintain a well-diversified portfolio that incorporates consistent exposure to both growth and value. The leadership of momentum alongside growth suggests that finding an active growth manager that can not only provide exposure to true-growth stocks but also can adapt quickly to harness the power of momentum can add alpha to portfolios and act as consistent complement to a portfolio's exposure to value. And finally, as earnings and economic growth around the globe decelerate, investors have demonstrated demand for companies exhibiting high rates of growth, which has benefitted small-cap stocks: a market segment where skilled active managers have the ability to capitalize on informational inefficiencies as opposed to standard cap-weighted index (or index-like) approaches that overweight large and frequently slow-growing stocks. ■

A Note about Risk: The value of investments in equity securities will fluctuate in response to general economic conditions and to changes in the prospects of particular companies and/or sectors in the economy. Statements concerning financial market trends are based on current market conditions, which will fluctuate. There is no guarantee that markets will perform in a similar manner under similar conditions in the future. All investments involve risks, including the loss of principal invested.

Glossary of Terms

The **Russell 1000® Growth Index** measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

The **S&P 500®** is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

The **S&P 500® Equal Weight Index** (EWI) is the equal-weight version of the widely-used S&P 500 Index. The index includes the same constituents as the capitalization weighted S&P 500 Index, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

The **S&P 500® Quality Index** is designed to track high-quality stocks in the S&P 500 Index by quality score, which is calculated based on return on equity, accruals ratio, and financial leverage ratio. .

The **S&P 500® Momentum Index** is designed to measure the performance of securities in the S&P 500 Index universe that exhibit persistence in their relative performance.

The **S&P 500® Low Volatility Index** measures performance of the 100 least volatile stocks in the S&P 500 Index. The index benchmarks low volatility or low variance..

S&P Style Indexes divide the complete market capitalization of each parent **index** into **growth** and **value** segments. Constituents are drawn from the S&P 500 Index.

A **total return index** tracks both the capital gains of the group of stocks over time and assumes that any cash distributions, such as dividends, are reinvested back into the index.

Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

This ***Market View*** may contain assumptions that are "forward-looking statements," which are based on certain assumptions of future events. Actual events are difficult to predict and may differ from those assumed. There can be no assurance that forward-looking statements will materialize or that actual returns or results will not be materially different from those described here.

Diversification does not ensure a profit or protect against a loss in a declining market.

The information provided herein is not directed at any investor or category of investors and is provided solely as general information about our products and services and to otherwise provide general investment education. No information contained herein should be regarded as a suggestion to engage in or refrain from any investment-related course of action as Lord, Abbett & Co LLC (and its affiliates, "Lord Abbett") is not undertaking to provide impartial investment advice, act as an impartial adviser, or give advice in a fiduciary capacity with respect to the materials presented herein. If you are an individual retirement investor, contact your financial advisor or other non-Lord Abbett fiduciary about whether any given investment idea, strategy, product, or service described herein may be appropriate for your circumstances.

*The opinions in **Market View** are as of the date of publication, are subject to change based on subsequent developments, and may not reflect the views of the firm as a whole. The material is not intended to be relied upon as a forecast, research, or investment advice, is not a recommendation or offer to buy or sell any securities or to adopt any investment strategy, and is not intended to predict or depict the performance of any investment. Readers should not assume that investments in companies, securities, sectors, and/or markets described were or will be profitable. Investing involves risk, including possible loss of principal. This document is prepared based on the information Lord Abbett deems reliable; however, Lord Abbett does not warrant the accuracy and completeness of the information. Investors should consult with a financial advisor prior to making an investment decision.*

Lord, Abbett & Co. LLC | 90 Hudson Street | Jersey City, NJ 07302-3973 | T 1.888.522.2388 | lordabbett.com

Investors should carefully consider the investment objectives, risks, charges, and expenses of the Lord Abbett funds. This and other important information is contained in each fund's summary prospectus and/or prospectus. To obtain a prospectus or summary prospectus on any Lord Abbett mutual fund, contact your investment professional or Lord Abbett Distributor LLC at 888-522-2388, or visit us at lordabbett.com. Read the prospectus carefully before you invest.