LORD ABBETT

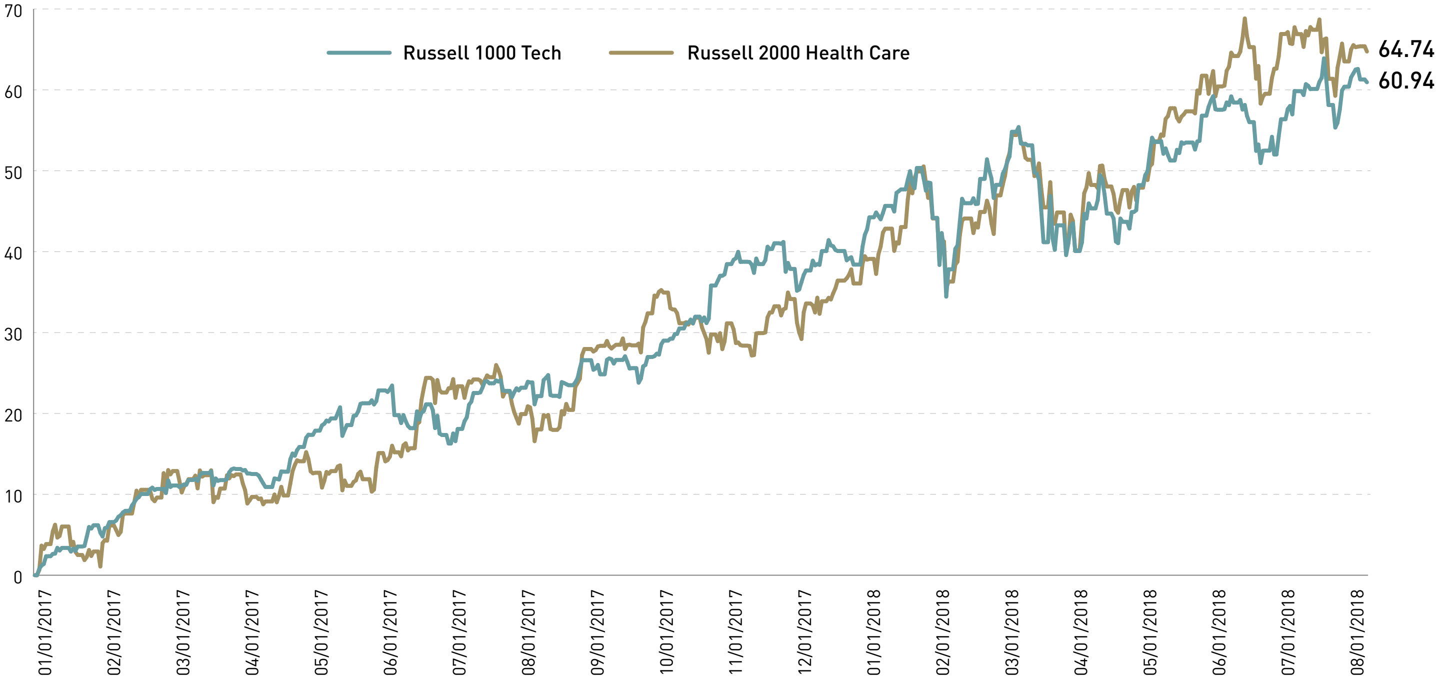
MARKET VIEW

U.S. STOCKS: THERE'S MORE TO GROWTH THAN LARGE-CAP TECH

Investors have mostly shaken off recent earnings misses from FAANG names in pursuit of other growth opportunities.

CHART 1. SMALL-CAP HEALTH CARE HAS DELIVERED TECH-LIKE PERFORMANCE SINCE JANUARY 2017

CUMULATIVE RETURNS, JANUARY 1, 2017 – AUGUST 1, 2018

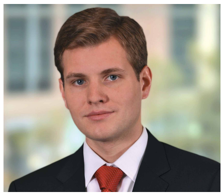


Source: Russell indexes. **Past performance is not a reliable indicator or guarantee of future results.** Performance during other periods may have been different. Other indexes may not have performed in the same manner under similar conditions. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment.

IN BRIEF

- U.S. large-cap tech stocks propelled U.S. markets higher in 2017 and the first half of 2018, driven primarily by the so-called FAANG stocks.
- In late July 2018, FAANG components Facebook and Netflix reported surprising earnings misses, leading to a sell-off in the tech sector.
- Fears of an unwinding of the growth trade have not been realized, as investors rotated out of tech and into other growth segments of the U.S. market.

CONTRIBUTING STRATEGIST



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Disappointing second quarter earnings from two of the high-flying FAANG companies (Facebook and Netflix) led to a brief market sell-off in July 2018, fueling fears of an unwinding of the "growth" trade that has driven markets higher since the start of 2017. (FAANG is a popular acronym for five high-performing technology stocks: Facebook, Amazon, Apple, Netflix, and Google [now Alphabet, Inc.].)

These fears appear to be unfounded, however, as growth investors have mostly shaken off the earnings misses, bypassing these under-whelming big-name tech stocks in favor of still compelling opportunities in the healthcare and consumer discretionary sectors.

TABLE 1. RECENTLY, HEALTH CARE AND CONSUMER DISCRETIONARY HAVE BEEN OUTPACING TECH

RETURNS FROM JULY 25, 2018–AUGUST 13, 2018

SECTOR	RETURN (%) 07/25/2018 - 08/13/2018
TECHNOLOGY	(0.33)
HEALTHCARE	1.95
CONSUMER DISCRETIONARY	0.37
RUSSELL 3000	0.21

Source: Russell indexes. Technology =Russell 3000® Technology Index. Health Care=Russell 3000® Health Care Index. Consumer Discretionary=Russell 3000 Consumer Discretionary Index. Russell 3000=Russell 3000® Growth Index. Past performance is not a reliable indicator or guarantee of future results. Performance during other periods may have been different. Other indexes may not have performed in the same manner under similar conditions. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment.

The continued outperformance of these two growth sectors suggests continued investor demand for fast-growing, fundamentally strong companies.

- As of August 10, 2018, according to FactSet, the healthcare sector has seen the greatest percentage of companies report second quarter revenues above consensus estimates (83%) and the second greatest percentage of companies report earnings above consensus estimates (95%), lagging only the telecommunications sector.
- Despite the disappointing results from two of the FAANGs, information technology ranks high on both these metrics as well, with 82% of companies beating consensus revenue estimates and 90% beating consensus earnings estimates (ranking as the second and third best sector on each metric, respectively).
- And, finally, while results from the consumer discretionary sector as a whole have been mixed, no sector has seen its companies beat consensus earnings estimates by as much on average, with the average consumer discretionary company beating estimates by 9% implying that the most fundamentally strong companies within the sector are growing substantially faster than investors anticipated.

For investors, the ongoing outperformance of these secular growth areas of the market, despite the fizzling of the FAANG trade in recent weeks, should come as no surprise. As we have laid out in past *Market Views*, from modern medicine to e-commerce, rapid technological innovation is disrupting industries worldwide, creating opportunities for growth investors beyond just the FAANGs.

In fact, while large-cap tech (as represented by the Russell 1000® Technology Index) has been a leading driver of market returns over the past year and a half, it may surprise investors to learn that it has not been the leading segment of the market during this period. That honor would go to small-cap health care, led by fast-growing biotech companies with strong pipelines of innovative treatments—just one example of the compelling growth investment opportunities that reside across the market landscape today. ■

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