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# Silvant Market Insights

## Growth Equity

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### **Executive Summary**

- All sectors posted gains for the period.
- Concern over Chinese economic growth drove volatility late in the quarter.
- The U.S. economy remains attractive relative to the global economy.



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## Growth Equity

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Growth stocks posted strong returns for the fourth quarter of 2015, in line with the broader equity market. The Russell 1000 Growth Index returned 7.32%, compared to a 7.04% return for the S&P 500 Index. Growth outperformed value for the quarter with the Russell 1000 Value Index returning 5.64% for the period. Large cap stocks outperformed their small cap counterparts as the Russell 2000 Growth Index posted a gain of 4.32%.

Equities started the period with a strong rebound from September lows. All sectors experienced gains, although performance varied considerably among sectors. Later in the period, investors grew concerned about the state of the Chinese economy and the ability of the Chinese government to manage economic problems. Those concerns raised fears about flagging global economic growth, which in turn drove up volatility and led equities to a weak finish for the quarter.

**Exhibit 1: CBOE Volatility Index (2015)**



Source: <http://www.cboe.com/micro/vix/historical.aspx>

The Federal Reserve Bank (Fed) announced a much-anticipated interest rate hike in December. The move came despite concerns over the state of global markets—concerns that had played a role in delaying the rate hike earlier in the year. The decision to raise rates was seen as a sign of confidence in the state of the U.S. economy and had little impact on equity returns during the quarter.

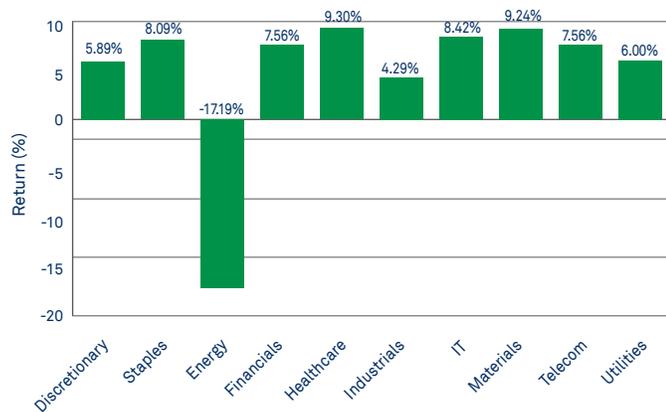
### Tech stocks lead the way

Large cap technology companies posted strong gains for the period. These companies continued to compete successfully for market share and managed to grow revenues in excess of market expectations. Despite the gains, a number of opportunities remain in this sector. In particular, companies involved with cloud computing and security offer attractive growth prospects.

Healthcare stocks also posted strong gains for the quarter, rebounding markedly from a poor third quarter. In particular, small cap biotech companies bounced back after challenging losses in the previous quarter. Not all healthcare subsectors gained, however. A large cap hospital chain spooked investors when it reported lower-than-expected earnings. The news pushed down stock prices throughout the hospital subsector, particularly in the small cap space.

The Energy sector continued to suffer under falling energy prices, posting the smallest gain of all sectors. U.S. crude oil ended the quarter at \$37, which represented an 18% decline for the period.

Exhibit 2: Large Cap Sector Performance\* (4Q15)



\* Russell 1000 Index, Source: Factset data pulled 1/14/16.

### Market outlook

The U.S. economy remains attractive relative to the broader global economy. Job growth in the U.S. has been steady, and there are signs of wage growth as well. Low energy prices are good for consumer spending, and we believe the Fed is unlikely to raise rates aggressively. That said, the U.S. recovery is nearing the end of its cycle. There is no reason to expect a recession in the U.S. but the recovery is close to seven years old, which is nearing the average length of economic recoveries.

There is also a great deal of uncertainty in the global markets that could influence domestic equity markets. For instance, should investors continue to view the state of the Chinese economy with fear, it could weigh heavily on global markets in early 2016. There is a high risk of near-term volatility, but further equity declines would also mean an increase in opportunities for growth investors.



**CBOE Volatility Index (VIX)** is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

**Russell 1000 Growth Index** is an unmanaged index composed of securities in the Russell 1000 Index, with higher than average price-to-book ratios and higher than average forecasted growth values. Investors cannot invest directly in an index.

**Russell 1000 Value Index** is composed of the securities in the Russell 1000 Index with a less-than-average growth orientation. Companies in this index generally have low price-to-book and price-to-earnings ratios, higher dividend yields, and lower forecasted growth values.

**Russell 2000 Growth Index** is composed of the securities found in the Russell 2000 Index with a greater-than-average growth orientation. Companies in this index tend to exhibit higher price-to-book and price-to-earnings ratios.

**Standard & Poor's 500 (S&P 500) Index** is an unmanaged index of 500 selected common large capitalization stocks (most of which are listed on the New York Stock Exchange) that is often used as a measure of the U.S. stock market.

Investors cannot invest directly in an index.

**Investment Risks:** Equity securities (stocks) may be more volatile and carry more risk than other forms of investments, including investments in high grade fixed income securities. The net asset value per share of a fund will fluctuate as the value of the securities in the portfolio changes. Small capitalization funds typically carry additional risks since smaller companies generally have a higher risk of failure. Growth stocks typically are sensitive to market movements because their market prices tend to reflect future expectations. When it appears those expectations will not be met, the prices of growth stocks typically fall.

The views expressed herein are as of the quarter-end specified. This information is general in nature, provided as general guidance on the subject covered, and is not intended to be authoritative. It is subject to change without notice as market conditions change, and is not intended to predict the performance of any individual security, market sector, or portfolio. All information contained herein is believed to be correct, but accuracy cannot be guaranteed. Investors are advised to consult with their investment professional about their specific financial needs and goals before making any investment decision.

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