



# Equities in Focus

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## Defensive Shifts Are Not Always Dire

Amid the continued turbulence in US stocks, the market has broadened, and a significant style reversal has occurred. But the pivot from growth stocks to value equities has had its nuances, and not all is lost for patient investors in periods of high uncertainty.

### Key Takeaways

- 1. When Value Plays Defense:** Value indices have benefited from heavier weights in sectors such as healthcare and consumer staples.
- 2. Policy Uncertainty Unnerves Markets:** Indeed, policy uncertainty has risen sharply, but we have been here before.
- 3. Patience Is an Ally:** Following peaks in US policy uncertainty, subsequent market returns have been rewarding.

## A Closer Look at the Value Rally

This year's value rotation has been more defensive in nature versus a classic, pro-cyclical variety. This owes in large part to the sector composition differences between the style indices (*Display 1*). Sectors such as healthcare, consumer staples and utilities are traditionally safer harbors when fears about the economy or the state of equity markets are in question, and they have larger weights in the value index.

## A Surge Higher in Policy Fears

The culprit for the recent market pullback has been heightened US policy concerns ranging from government cost cuts to tariffs. This has been reflected in the US Economic Policy Uncertainty Index, which is sourced from US newspapers based on the number of articles containing terms such as "economic," "uncertainty," "legislation," etc. Despite this year's sharp rise in the Index (its peak was 496 in January), it has been higher in years past (*Display 2*). So, what has happened historically when the clouds begin to dissipate around policy uncertainty? Investors who stayed the course in prior scary times were ultimately rewarded over both near and longer time periods (*Display 3*).

## Our View

Considering that we remain in the soft landing camp regarding the economy, investor sentiment is well off the highs reached late last year, and our expectation is for positive earnings growth in 2025, we expect equities will again get a boost should clarity emerge on the policy front. Also, we anticipate that diversification in equities will remain an investor's friend, unlike the past two years. Lower volatility stocks with steady cash flows and dividend growers are examples of more ways to win beyond large-cap growth companies in these confusing times.

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**Display 1: Sector Composition Difference Drives Outperformance of Value Indices**

S&amp;P 500–style indices' sector weights (percent)

	S&P 500 Value	S&P 500 Growth	Value–Growth
Healthcare	15.9	6.4	+9.5
Energy	6.3	0.8	+5.6
Consumer Staples	8.0	3.6	+4.4
Materials	3.6	0.5	+3.1
Utilities	3.9	1.1	+2.8
Financials	15.7	13.2	+2.4
Real Estate	3.2	1.3	+1.9
Industrials	8.4	8.5	–0.0
Consumer Discretionary	8.3	11.7	–3.4
Communication Services	4.0	14.7	–10.8
Technology	22.7	38.2	–15.5

**Past performance does not guarantee future results.**

Numbers may not sum due to rounding.

As of March 21, 2025

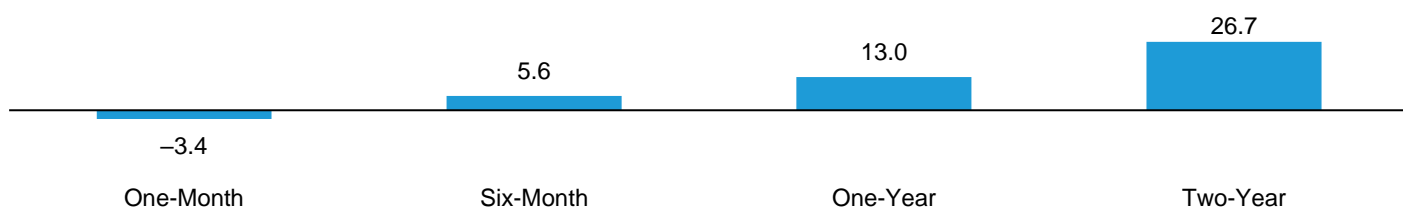
Source: Bloomberg and AB

**Display 2: Prior High Periods for the US Economic Policy Uncertainty Index\***

Periods	Index Level
September 30, 2008	626
May 31, 2020	557
August 31, 1998	386
July 31, 2009	354
March 31, 1985	350
September 30, 2001	337
July 31, 2011	320
August 31, 1986	320
December 31, 1989	305
October 31, 1987	299
Average	385

**Past performance does not guarantee future results.**

\*The Baker, Bloom and Davis daily news–based US Economic Policy Uncertainty Index is based on newspaper archives sourced from Access World News' NewsBank service. These newspapers range from large national papers like *USA Today* to small local newspaper sources. The index is constructed based on the number of articles that contain at least one term from each of three sets of categories: "economic" or "economy"; "uncertain" or "uncertainty"; and "legislation" or "deficit" or "regulation" or "congress" or "federal reserve" or "white house." Index periods are based on monthly data.

Source: Bloomberg, [policyuncertainty.com](http://policyuncertainty.com) and AB**Display 3: Favorable S&P 500 Index Returns After Past Policy Uncertainty Highs (Percent)****Past performance does not guarantee future results.**Returns are cumulative using monthly data and are based on the average of the forward returns of the S&P 500 following 10 time periods when the US Economic Policy Uncertainty Index attained high levels from 1985 to 2020 (see *Display 2*).

As of March 21, 2025

Source: Bloomberg, S&amp;P and AB

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The value of an investment can go down as well as up, and investors may not get back the full amount they invested. Capital is at risk. Past performance does not guarantee future results.

Some of the principal risks of investing include Market Risk, Currency Risk, Derivatives Risk, OTC Derivatives Counterparty Risk, Allocation Risk, Overseas Assets Risk, Systemic Risk, Turnover Risk, Illiquid Securities Risk, Leverage Risk, Equities Risk, Concentrated (Focused Portfolio) Risk, Smaller-Capitalization Companies Risk and Long/Short Strategies Risk.

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