U.S. Slowdown Shown in Value-Growth Divergence: Chart of the Day

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Oct. 2 (Bloomberg) -- Diverging sentiment about the future paths of the U.S. and European economies can be seen in investors' stock picks, as traders position for an American slowdown and a recovery in the euro area.

The CHART OF THE DAY shows the ratio of prices for so- called growth stocks and value shares in the two regions. The former group, which have a history of superior gains in profit, often beat the wider market when the economy slows. Value equities, which are cheaper relative to earnings, tend to outperform when economic growth accelerates.

"The market is playing the divergence between a maturing cycle in the U.S., and Europe where we are leaving the double dip," said Tristan Abet, a strategist at Louis Capital Markets LP in Paris. "While the returns of markets on aggregate will remain being correlated, you do want to stay in growth stocks in the U.S. and value stocks elsewhere."

Investors have switched money out of the U.S. into Europe in the last two months as data showed the euro area emerged from its longest ever recession and the American government suffered its first partial shutdown in 17 years after Congress failed to agree on a budget.

Mutual funds that buy U.S. stocks had $11.4 billion in outflows in the past seven weeks, according to data from EPFR Global Inc., a research company in Cambridge, Massachusetts. The U.S. last month fell to No. 3 from No. 1 among most-favored regions in a Bank of America Corp. survey of money managers.

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