eastspring investments

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CHART OF THE MONTH

SEP 2022

Value continues to shine

Value style performance continues to outperform the growth style. On a year-to-date (YTD) basis, value stocks have generally outpaced growth stocks in all key regions. Most notably, when considering the YTD performance differential of the value factor and the respective MSCI parent index (for example: MSCI Japan Value vs. MSCI Japan), the value style is up 7.12% in the US, up 9.42% in Japan, and up 5.27% in Europe.

This preference for value began in late 2020 and is a reversal of the sentiment that prevailed in the decade post the 2008 Global Financial Crisis, during which investors tended to avoid value names and preferred high-quality and growth stocks and those with short-term earnings potential. This caused the relative valuations of growth versus value stocks to hit multi-decade highs.

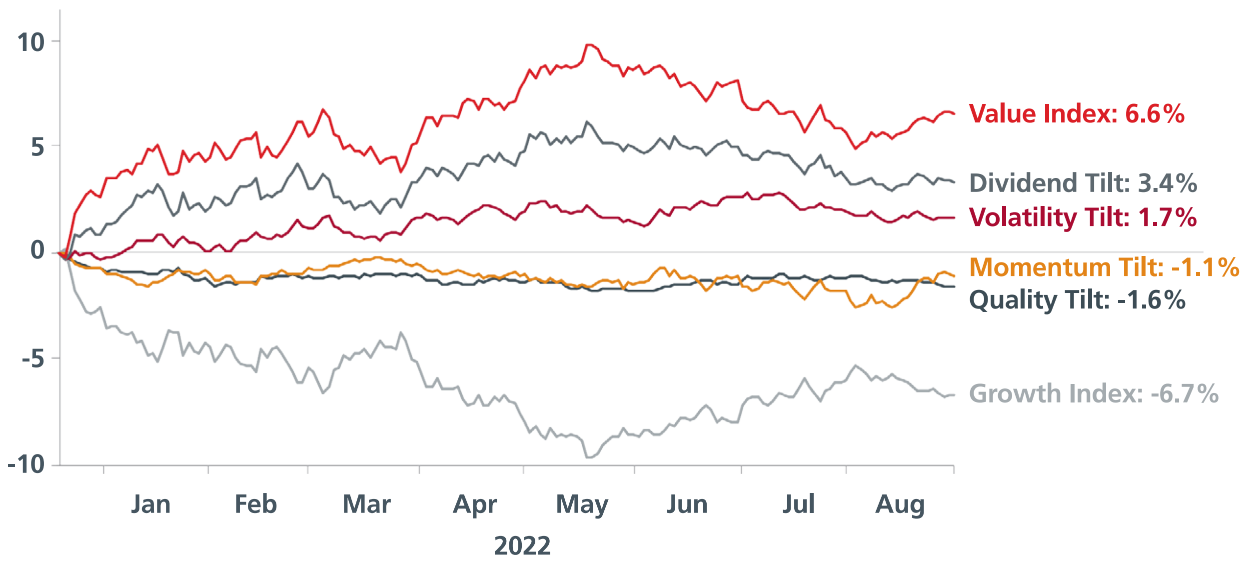
With the renewed interest in value, there has been a pullback year-to-date in the multiple that investors are willing to pay for growth, resulting in a positive re-rating for value companies, especially in certain sectors. Nevertheless, the valuation gap remains at a high level.

Eastspring's value strategy teams think there is still plenty of room for value stocks to continue their run given that the current policy response is focused on investing in the real economy and supporting consumers.

The change in expectations around inflation and interest rates is also refocusing the attention towards profitability and free cash flow. Substantial inflationary pressure along with rising rates can help value stocks while hurting expensive growth and quality stocks, as value stocks tend to exhibit lower duration than growth stocks (i.e., value stocks are less sensitive to the potential adverse impact from rising interest rates).

After years of cheap companies being neglected, this trend has persisted as investors refocus on areas of the market where mispricing is prevalent. This is the decade of revolutionary transformations, such as the decarbonisation transition, which may benefit equities related to real economy sectors, including those in the value space currently. Eastspring's value teams see significant mispriced stock opportunities in Japan, Global Emerging Markets and Asia.

MSCI AC World equity factor relative performance



Source: Refinitiv Datastream as of 31 August 2022

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