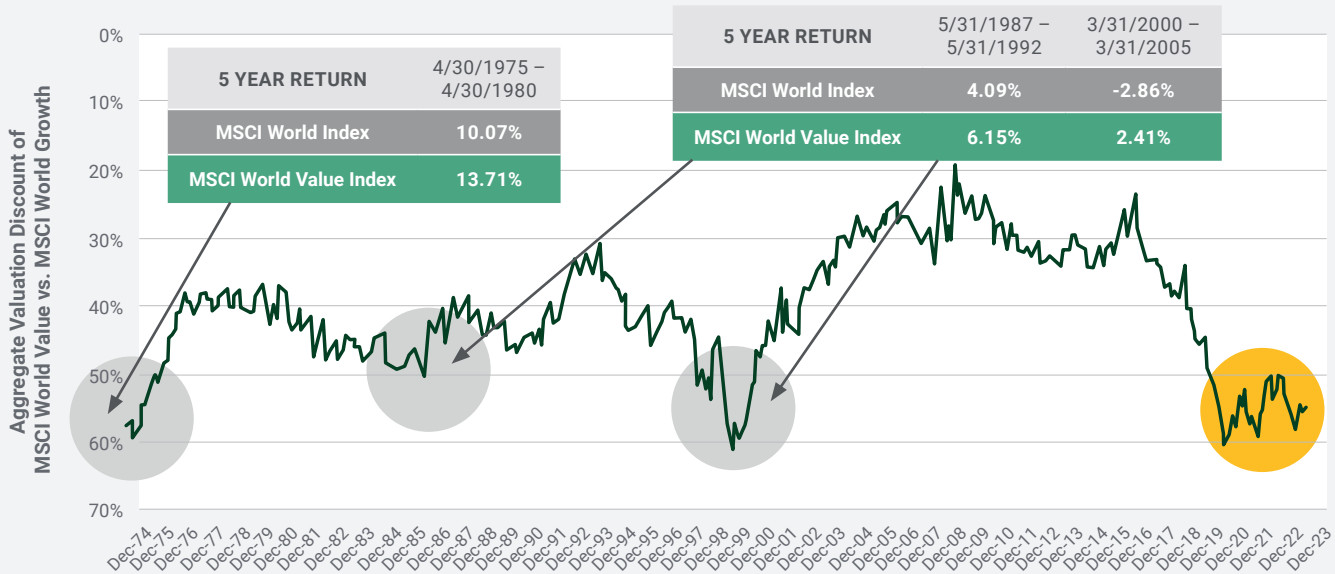


# Plenty of Runway for Value

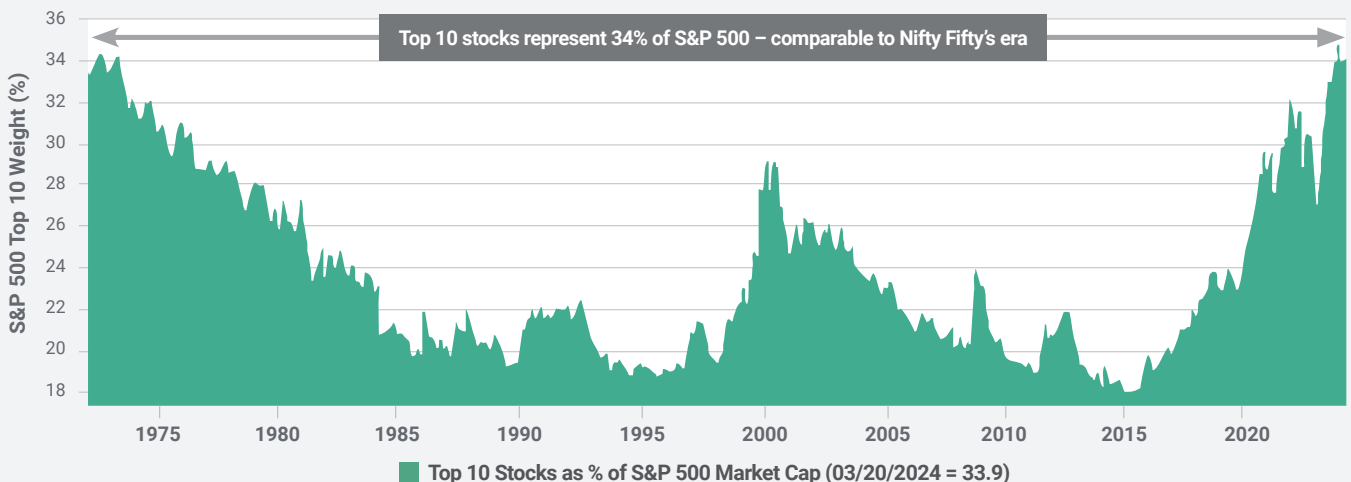
With the value-led cycle well into its fourth year, many wonder whether the value run is nearing its end, especially given the outperformance of U.S. growth stocks in 2023 (MSCI USA Value vs. MSCI USA Growth). However, there are four reasons why we remain bullish on value.

**1.** Value outperformance in recent years did little in closing the valuation gap between value and growth, which remains attractively wide, in our opinion. Historically, such valuation gaps preceded appealing returns for value relative to growth.



DECEMBER 31, 1974 TO DECEMBER 31, 2023 | Source: MSCI via FactSet. All returns annualized. For each fundamental ratio (Price/Book, Price/Earnings, Price/Cash Flow, Forward Price/Earnings, Enterprise Value/Sales, Enterprise Value/Earnings Before Interest, Taxes, Depreciation, and Amortization), we calculate the average ratio of the MSCI World Value Index and divide it by the average ratio of the MSCI World Growth Index to determine the relative valuation. Aggregate valuation discount based on the average of each individual metric's valuation discount of the value index relative to growth. For illustrative purposes only. Does not represent the performance of any specific investment. Actual results will vary.

**2.** U.S. market dominance over the past decade has been mainly driven by a relatively narrow group of stocks. As of 12/31/2023, the top 10 stocks in S&P 500 accounted for 34% of the index, a level only seen during the Nifty Fifty era. This increases the risk of over-concentration.



JANUARY 20, 1972 TO MARCH 20, 2024 | Source: Ned Davis Research, FactSet, Brandes. Chart used with permission from NDR, Inc. Further distribution prohibited without permission.

**3.** Value has provided more diversification than other factors, including quality, momentum, and growth, which tend to be more concentrated and have a higher degree of overlap with each other.

	MSCI World Quality	MSCI World Growth	MSCI World Momentum	MSCI World Value
	Nvidia	Apple	Nvidia	Broadcom Inc.
	Microsoft	Microsoft	Meta Platforms	JPMorgan Chase & Co.
	Apple	Nvidia	Amazon	Berkshire Hathaway
	Meta Platforms	Amazon	Microsoft	UnitedHealth
	Lilly & Company	Meta Platforms	Broadcom	Exxon Mobil
	Visa	Alphabet A	Lilly & Company	Johnson & Johnson
	Alphabet A	Alphabet C	Novo Nordisk	Procter & Gamble
	Novo Nordisk	Tesla	Alphabet A	Home Depot
	Broadcom	Lilly & Company	Alphabet C	Merck & Co
	ASML	Visa	Adobe	AbbVie
<b>Weight of Top 10</b>	<b>34.3%</b>	<b>40.4%</b>	<b>41.9%</b>	<b>13.8%</b>

In 3 Indices
  In 2 Indices
  In 1 Index

JANUARY 31, 2024 | Source: MSCI, FactSet.

**4.** Persistent inflation and higher-for-longer interest rates may create a good environment for value as value stocks have had the historical tendency to do well during periods of elevated interest rates and inflation. There are several reasons for the positive correlation.

**Financials**



- Largest component of many value indices
- May benefit from net interest margin expansions during periods of steepening yield curve
- Higher interest rates may also boost the returns of their short-term investments

**Cyclical Stocks**



- A big component of value stocks (including financials, industrials, energy, etc.) tends to be economically sensitive
- Rising inflation and interest rates have tended to occur during periods of economic strengthening, which had boded well for value stocks

**Discount Rate**



- The present value of a growth stock is largely driven by cash flows from a distant future (long duration)
- Rising inflation/interest rates drive up the discount rate used in company valuations, making long-duration growth stocks worth incrementally less compared to value stocks with more immediate expected cash flows (short duration)

**Investor Sentiment**



- During uncertain times (e.g., trade wars, pandemic) investors are likely willing to pay a premium for the perceived stability of quality growth stocks
- As the economy strengthens—and inflation rises—investors typically become more comfortable investing in economically sensitive value stocks

Source: Brandes

# Value with Brandes

In our view, value investing is not only about capturing potentially undervalued companies, but also about avoiding areas of the market that may be overpriced. The uptick in market volatility in recent years has provided us with new and exciting investment opportunities.

## EUROPE

Opportunities in multinationals and select domestic-oriented companies, including:

- Luxury goods companies with EM/China exposure
- Consumer staples mostly in the U.K. and Ireland
- Media firms
- Construction materials

## CHINA

- Recently out of favor due to slow post-COVID recovery, geopolitical factors
- 25% of MSCI EM—lowest in 8 years
- Value potential mainly in consumer-related companies, but starting to see more in other sectors

## U.S

- Over 60% of MSCI ACWI
- Generally expensive, but pockets of value in banks, health care firms, and select tech-related names

## LATIN AMERICA

- Relatively inexpensive headline valuations
- Value in diverse sectors (e.g., telcom, utilities, energy, real estate) primarily in Mexico and Brazil
- May benefit from nearshoring trend

## INDIA

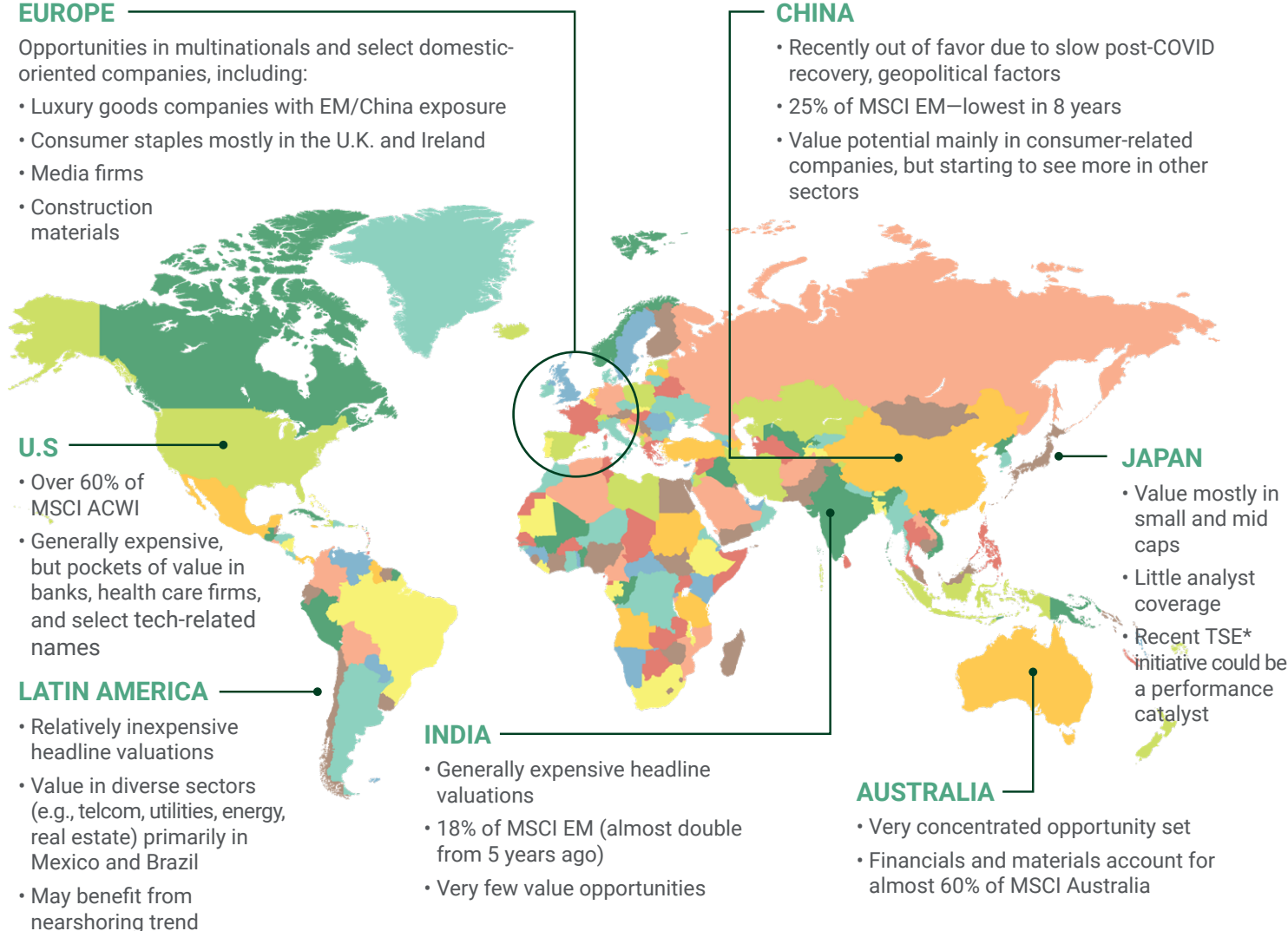
- Generally expensive headline valuations
- 18% of MSCI EM (almost double from 5 years ago)
- Very few value opportunities

## JAPAN

- Value mostly in small and mid caps
- Little analyst coverage
- Recent TSE\* initiative could be a performance catalyst

## AUSTRALIA

- Very concentrated opportunity set
- Financials and materials account for almost 60% of MSCI Australia



AS OF MARCH 31, 2024 | Source: Brandes, MSCI via FactSet. It is not possible to invest directly in an index. \*Tokyo Stock Exchange (TSE) is the main stock market of Japan, located in Tokyo, and one of the world's largest marketplaces for securities.

For term definitions: <https://www.brandes.com/termdefinitions>

The MSCI Australia Index is designed to measure the performance of the large and mid cap segments of the Australia market. With 58 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Australia.

The MSCI ACWI with net dividends captures large and mid cap representation of developed and emerging markets.

The MSCI Emerging Markets Index with net dividends captures large and mid cap representation of emerging market countries.

The MSCI USA Value Index measure the performance of the large and mid cap segments of the U.S. equity market exhibiting value style characteristics, defined using book value to price, 12-month forward earnings to price, and dividend yield.

The MSCI USA Growth Index measure the performance of the large and mid cap segments of the U.S. equity market exhibiting growth style characteristics, defined using long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend, and long-term historical sales per share growth trend.

The MSCI World Index with net dividends captures large and mid cap representation of developed markets.

The MSCI World Value Index captures large and mid cap securities across developed market countries exhibiting value style characteristics, defined using book value to price, 12-month forward earnings to price, and dividend yield.

The MSCI World Momentum Index is designed to reflect the performance of an equity momentum strategy. It does so by emphasizing stocks with high price momentum, while maintaining reasonably high trading liquidity, investment capacity, and moderate index turnover. The index is based on the MSCI World.

The MSCI World Growth Index captures large and mid cap securities across developed market countries exhibiting growth style characteristics, defined using long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend, and long-term historical sales per share growth trend.

The MSCI World Quality Index is based on MSCI World, its parent index, which includes large and mid cap stocks across 23 Developed Market countries. The index aims to capture the performance of quality growth stocks by identifying stocks with high quality scores based on three main fundamental variables: high return on equity, stable year-over-year earnings growth and low financial leverage.

The S&P 500 Index measures equity performance of 500 of the top companies in leading industries of the U.S. economy.

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One cannot invest directly in an index. Past performance is not a guarantee of future results.

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