

The (Continued) Case for Value

While we believe the latest value performance has been remarkable, with MSCI World Value outperforming MSCI World Growth by a cumulative 37% for the period 9/30/20 to 12/31/22,¹ it has also raised a few questions: Is this value-led cycle sustainable? Is it too late to tap into the potential of value stocks? What factors support a continued allocation to value stocks?

From persistently large valuation gap to elevated inflation, here are the top three reasons, in our view, to remain optimistic about the long-term potential of value stocks.

- Value's recent performance has done little in narrowing the wide gap between the valuations for value stocks and those for growth stocks. Across regions and valuation metrics, value stocks continue to trade at what we consider compelling discount levels to growth stocks.

Percentile Rank of Relative Valuations for Value vs. Growth

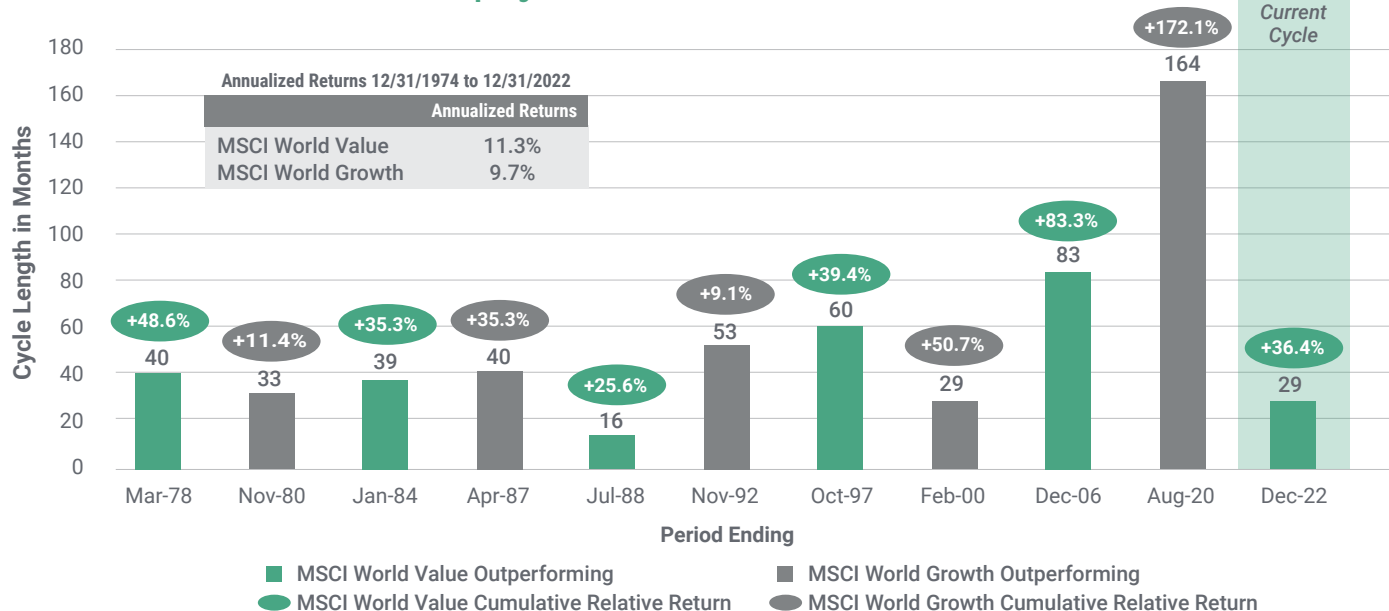
(100th = Least Expensive in History)

	Global	International	U.S.	Emerging Markets	Europe
Price to Book	90%	96%	75%	86%	98%
Dividend Yield	95%	96%	94%	100%	97%
Price to Cash Flow	87%	98%	69%	89%	99%
Forward P/E	85%	94%	84%	95%	98%
EV/Sales	84%	96%	74%	88%	100%

RELATIVE VALUE BASED ON VARIOUS FUNDAMENTAL RATIOS, DECEMBER 31, 1974 TO DECEMBER 31, 2022 | Source: MSCI via FactSet. Global: MSCI World Value Index and MSCI World Growth Index. International: MSCI EAFE Value Index and MSCI EAFE Growth Index. US: MSCI USA Value Index and MSCI USA Growth Index. Emerging Markets: MSCI EM Value Index and MSCI EM Growth Index. Europe: MSCI Europe Value Index and MSCI Europe Growth Index. For each fundamental ratio, we calculate the average ratio of the value index and divide it by the average ratio of the growth index to determine the relative valuation. We then compare the current relative valuations with the averages for the whole period to determine the percentile ranks (100% means that the value discount vs. growth has never been this high based on the respective metric; 99% means that the value discount vs. growth is higher than it has been for 99% of the time during the period, etc.). EV: Enterprise Value. P/E: Price/Earnings.

- Value and growth stocks tend to perform in multi-year cycles, and historically, value-led cycles ran for about four years on average. In comparison, the current cycle—29 months as of 12/31/22—has not been running that long compared to history.

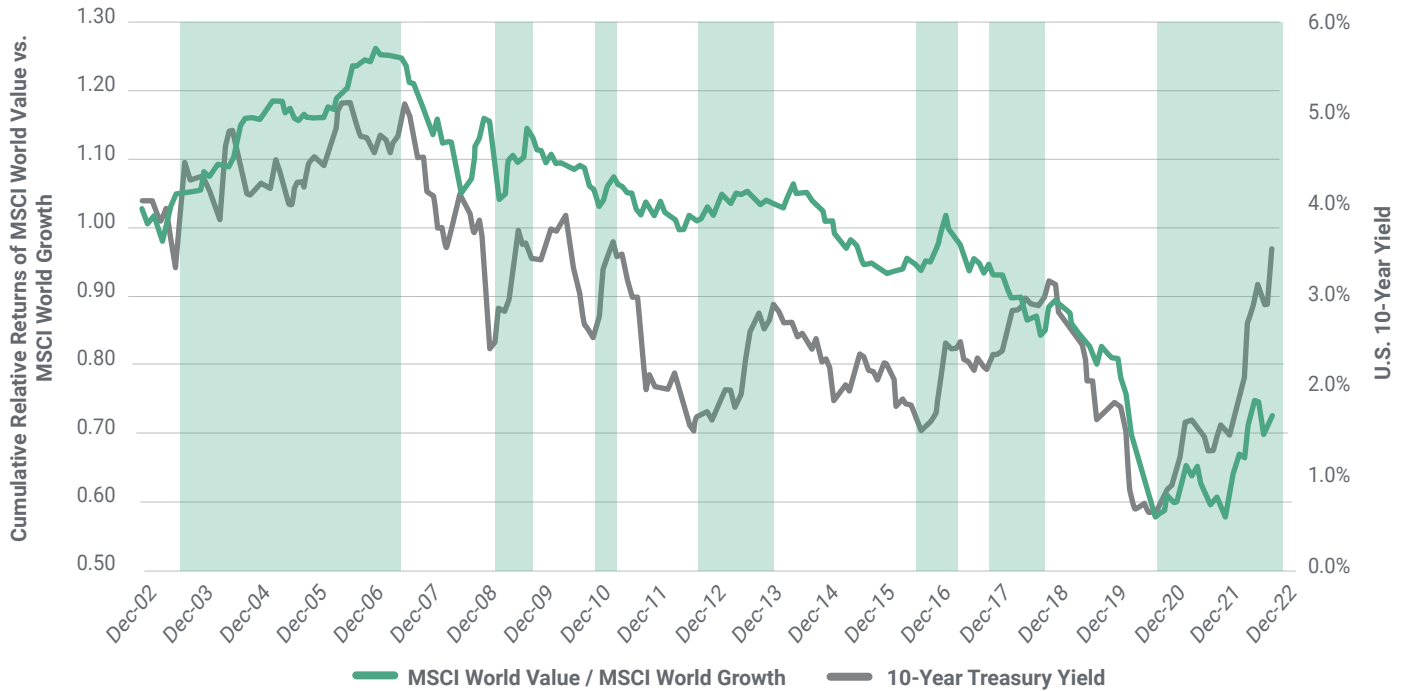
Value vs. Growth: Leadership Cycle and Relative Returns



DECEMBER 31, 1974 TO DECEMBER 31, 2022; RELATIVE PERFORMANCE OF MSCI WORLD VALUE INDEX VS MSCI WORLD GROWTH INDEX | Source: MSCI via FactSet. Cycles are based on sustained outperformance on a cumulative basis over periods of at least 12 months. It is possible for one index to outperform another and still experience negative absolute performance. Index performance does not reflect Brandes investment performance. The MSCI World Growth and Value Indices were launched Dec 08, 1997. Data prior to the launch date is back-tested (i.e., calculations of how the index might have performed over that time period had the index existed). There are frequently material differences between back-tested performance and actual results. Past performance is not a guarantee of future results. One cannot invest directly in an index. A 48-year period is not a typical investment period for most investors. Shorter periods may have produced much lower annualized returns.

3. Value stocks have tended to do well during periods of elevated interest rates and inflationary environments. As such, we believe the current macroeconomic backdrop provides an opportune time for investors to consider an allocation to value stocks.

Positive Correlation Between 10-Year Treasury Yield and Global Value's Relative Performance



DECEMBER 31, 2002 TO DECEMBER 31, 2022 | Source: FactSet, MSCI. 1=12/31/2002. Cumulative returns of MSCI World Value were divided by the cumulative returns of MSCI World Growth. Values above 1 indicate the value index outperformed.

Global Value Stocks Tended to do Well During Inflationary Environments

MSCI World Value – MSCI World Growth		
Increasing Global Inflation	+3.2%	(1988, 1990-91, 1994, 2000-01, 2003-08, 2010-11, 2016-18, 2021-22)
Decreasing Global Inflation	-3.9%	(1986-87, 1989, 1992-93, 1995-99, 2002, 2009, 2012-15, 2019-20)
Above-Average or Increasing Global Inflation	+2.6%	(1985-98, 2000-01, 2003-08, 2010-11, 2016-18, 2021-22)
Below-Average and Decreasing Global Inflation	-8.9%	(1999, 2002, 2009, 2012-15, 2019-20)

DECEMBER 31, 1984 TO DECEMBER 31, 2022 | Source: MSCI, World Bank. Average annual relative performance. Global inflation represented by inflation in the consumer price index from the World Bank. Average inflation rate is for the period 12/31/1984 to 12/31/2022. Annual returns from the MSCI World Growth Index were subtracted from annual returns of the MSCI Value Index. A positive result indicates the value index outperformed and a negative result indicates the growth index outperformed. It is possible for one index to outperform another but still experience a negative absolute return. Annualized returns for 12/31/1984 to 12/31/2022: MSCI World Growth 8.92%; MSCI World Value 9.14%.

¹ Source: MSCI via FactSet as of 12/31/22. For the period from 9/30/20 to 12/31/22, the MSCI World Value Index increased 34.05%, while the MSCI World Growth Index declined 3.02%.

Correlation: A statistical measure of how two variables move in relation to each other.

Dividend Yield: Dividends per share divided by price per share.

EV/Sales: Enterprise value divided by annual sales.

Forward Price/Earnings: Price per share divided by earnings per share expected over the next 12 months or next fiscal year.

Price/Book: Price per share divided by book value per share.

Price/Cash Flow: Price per share divided by cash flow per share.

The MSCI EAFE Growth Index with gross dividends captures large and mid cap securities across developed market countries, excluding the United States and Canada, 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 EAFE Value Index with net dividends captures large and mid cap securities across developed market countries, excluding the United States and Canada, exhibiting value style characteristics, defined using book value to price, 12-month forward earnings to price, and dividend yield.

The MSCI Emerging Markets Growth Index with gross dividends captures large and mid cap securities 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 Emerging Markets Value Index with gross dividends captures large and mid cap securities exhibiting value style characteristics, defined using book value to price, 12-month forward earnings to price, and dividend yield.

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

The MSCI USA Growth Index captures large and mid cap U.S. securities exhibiting overall 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 USA Value Index captures large and mid cap U.S. securities exhibiting overall value style characteristics, defined using book value to price, 12-month forward earnings to price, and dividend yield.

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 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.

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