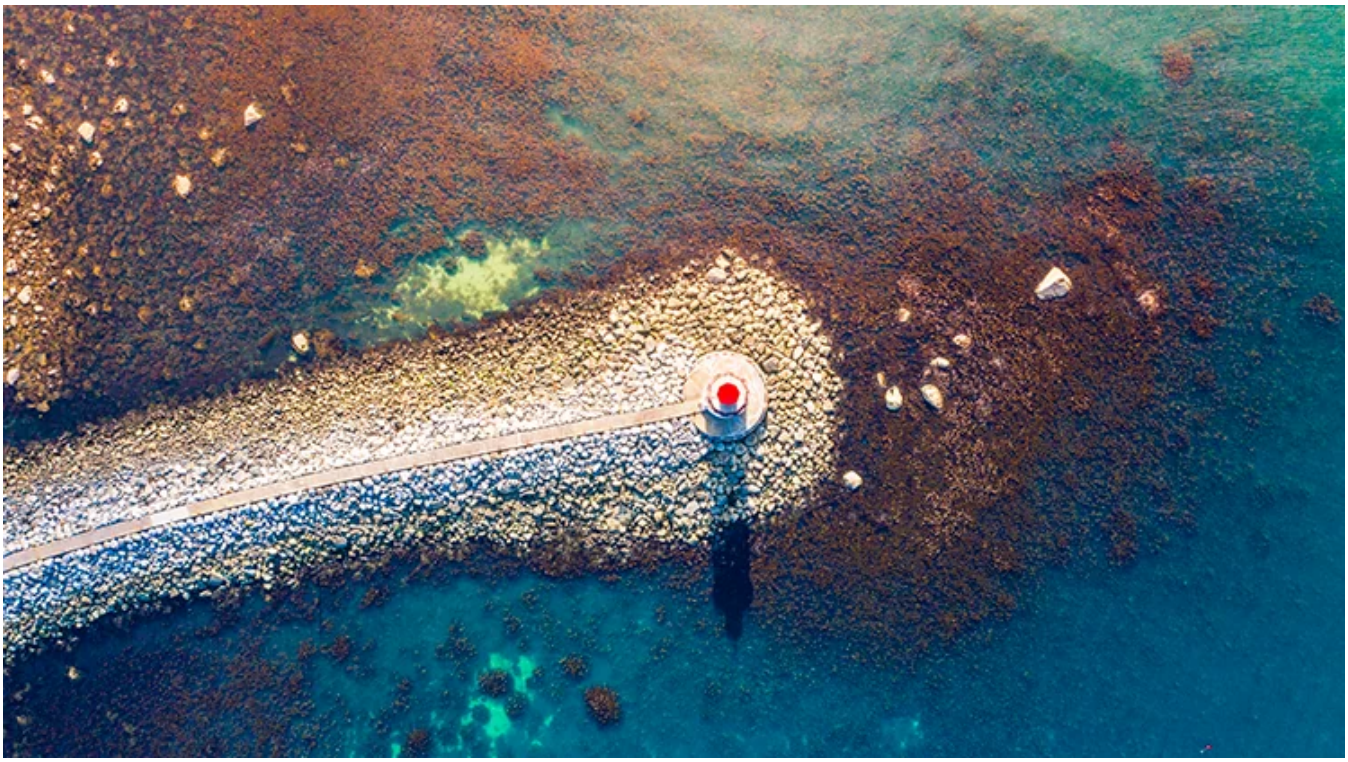
Perpetual

As value outperforms again, is your portfolio ready?

By Perpetual Asset Management

18 September 2024



As value returns to market favour it's time to check in on your portfolio – but not all value exposure is created equal. Barrow Hanley chief executive CORY MARTIN explains.

- Value stocks outperforming

- Why it's time to check your allocation
- Find out about Barrow Hanley's global equities investment solutions

A NOTABLE comeback in value stocks over the past six months is an important reminder for investors to reassess their portfolio allocations, says Barrow Hanley's Cory Martin.

Value stocks, which typically trade at a discount to their intrinsic value and offer higher dividend yields, were long overlooked by a market fixated on growth during an extended run of low interest rates.

But as market conditions normalise during 2024, value is making a strong comeback.

"Most people are still underweight value – but we are certainly seeing more interest," says Martin, chief executive officer at US-based global value investor Barrow Hanley.

"The narrowness of the market is a major risk and asset owners are starting to recognise that markets are at all-time highs and 65 per cent of the return last year came from eight stocks."

Herd mentality

Martin says it's time for investors to take a closer look at portfolios to ensure appropriate exposure to value stocks as world markets continue the normalisation process.

But he warns that not all value exposure is created equal – and there has been a striking drift away from traditional value investing even among some value managers.

"There has been a bit of a herd mentality that I'm seeing in the numbers," he says.

"We track roughly 30 value strategies so we can see what the market is rewarding, and quarter to date, just six managers out of those 30 have outperformed value. So, it's pretty narrow.

"What you're finding is this crowding – everybody has moved in the same direction, away from deep-discounted value to momentum. They are trading closer to the index.

"That drift is great when you're on an uptrend. But there's not a lot of downside protection in these portfolios."

He says there is a persistent concern among some investors about missing out on potential growth rallies, particularly in AI–related stocks. This leads to rapid swings in the market when positive news emerges.

But right now, value is outperforming growth.

"There's a lot of noise in the market right now – US elections, Middle East war, Russia–Ukraine, China tariffs, you name it.

“But we’ve been doing this for 45 years – we know the market is crazy, but day in day out we’re doing the blocking and tackling of value investing.

“Our portfolio right now is about the cheapest I’ve seen it since back around 2020. We’ve got some great shots on goal right now and that’s even with some pockets of value doing pretty well over the past year.”

Changing fortunes

It can be easy to forget how quickly markets shift mood.

In 2022, tech leaders fell heavily on the prospect of rising interest rates, sending the MSCI World Index down 18 per cent, the World Growth Index down 29 per cent, and the AI Index slumping 36 per cent.

“That was a value cycle. People realised that tech is cyclical and interest rate sensitive,” says Martin.

“Then from the 2023 through to the first months of 2024, growth was back on – narrow market, AI–driven, Goldilocks momentum – but the underlying economic and monetary backdrop had not changed.

“It was a distorted market where the Magnificent Seven drove about 62 per cent of return during 2023.”

Since February this year, value stocks are outperforming again, he says.

“We’re in a different environment now. Value generally outperforms in a normalised inflationary and interest rate environment.”

Falling rates may boost value stocks

Martin cautions against the commonly held view that falling interest rates will boost growth stocks again at the expense of value stocks, noting that in the last rate cut cycle, value outperformed.

“Rates will come down much slower than they went up. That will provide good opportunity for disciplined managers to continue to win and value to continue to do well.

“There is a correlation between rising rates and value doing well because the financial sector benefits.

“But it is equally true that as rates come down, cyclical value stocks benefit.

“Interest rates coming down generates housing starts, housing starts help construction and appliances and other things that are typically in that cyclical value area. As auto loan rates

come down, more cars will be bought. But importantly, there has to be an eye as to why rates are coming down. A slowing economic cycle will present different opportunities and outcomes versus a reacceleration of economic growth.

“So, we would argue that you can win in both rising and falling rate environments.

“It really just depends on where you place your bets during the interest rate cycle.”

About Barrow Hanley

Barrow Hanley is a global leader in value investing, managing assets for clients for more than 40 years.

Barrow Hanley Global Share Fund aims to provide investors with long-term capital growth through investment in quality global shares.

Rated "Highly Recommended" by Zenith, "Highly Recommended" by Lonsec and with a Morningstar Medallist rating of "Gold", the investment team focuses on finding value in all the right places.

Find out more here.

Barrow Hanley is distributed by Perpetual Group in Australia.

This information has been prepared by Perpetual Investment Management Limited ABN 18 000 866 535, AFSL 234426 (PIML), the responsible entity of the Barrow Hanley Global Share Fund ARSN 601 199 035 (Fund) and issuer of units in the Barrow Hanley Global Share Fund (Managed Fund) (Active ETF). Barrow, Hanley, Mewhinney & Strauss LLC (Barrow Hanley) is a 75% owned subsidiary of Perpetual Limited and a related party of PIML. Perpetual Corporate Trust Limited (ABN 99 000 341 533, AFSL 392673) has appointed Barrow Hanley as its authorised representative (Representative number 001283250) under its Australian Financial Services Licence.

It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.

The product disclosure statement (PDS) for the Fund, issued by PIML, should be considered before deciding whether to acquire or hold units in the Fund. The PDS, including for the Active ETF, issued by PIML, and each of the Active ETF’s other periodic and continuous disclosure announcements lodged with the ASX, should be considered before deciding whether to acquire or hold units the ETMF. The respective PDS and Target Market Determination for the Fund and Active ETF, issued by PIML, can be obtained by calling 1800 022 033 or visiting our website www.perpetual.com.au.

Neither PIML, Barrow Hanley nor any company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of, or any return on an investment made in the Fund or the Active ETF or the return of an investor's capital. All investments carry risk, including loss of principal. Past performance is not indicative of future performance.