



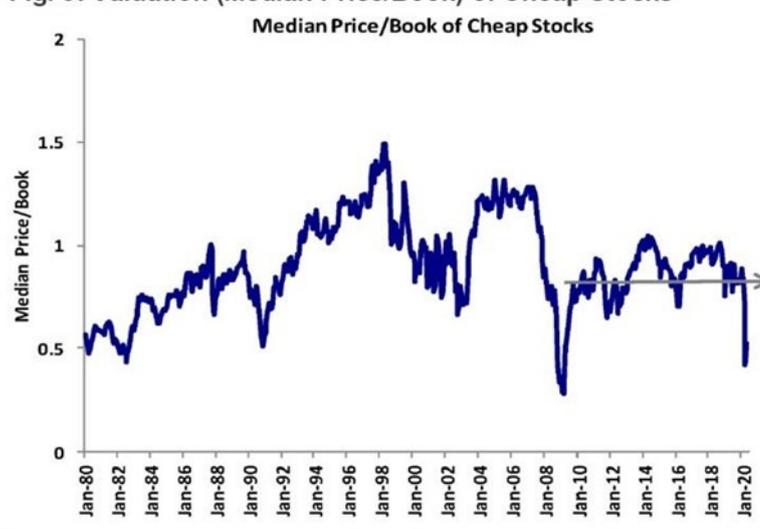
## Nr. 105 — The value of value stocks

It may have gone unnoticed with many investors: value has actually started to perform better than growth recently. In Europe, **MSCI Europe Value showed almost double the performance of MSCI Europe Growth over the last 2 weeks, that is 9.03% against 4.6%**. In the US, we see the same picture with Russell Value being up 9.4% against 4.2% for Russell Growth since the 15th of May.

It is clear 2 weeks of better performance for value investors do not make up for the lost performance since the financial crisis. It is also clear that 9 trading sessions are not enough to identify a pattern of a sustained recovery in value as there have been false dawns before.

However, as we have been arguing many times, **the odds for an imminent recovery in value stocks are improving**. They appear simply too cheap not only relative to their growth counterparts, but also on an absolute basis. In a recent article by Bloomberg columnist John Authers, he shows the absolute valuation of 10% cheapest US stocks since 1980. These value stocks are indeed at their lowest valuation in terms of Price to Book since the financial crisis and at one of the lowest valuations over the last 40 years.

Fig. 3: Valuation (Median Price/Book) of Cheap Stocks



Note: Shows the median price/book multiples of the cheap decile of Russell 1000 stocks (excluding companies with negative book value). Period is January 1980 through beginning of May 2020.

Source: Compustat. Russell. Instinet analysis

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Indeed, it is not only that valuations of some growth stocks have spiralled literally out of control, it is also the cheapest part of the market that has even become cheaper recently. As illustrated by the grey line, this fall in valuation is a 2020 event as valuations have been staying constant trending sideways over a decade. In the meantime, the median Price-to-Book of the most expensive stocks continued to move upwards.

## Friday Morning Coffee



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We accept the argument that banks carry a significant weight in the value indices and are facing significant headwinds in today's low interest rate environment. We also take the argument that cyclical companies, like industrials or consumer discretionary stocks, are particularly hit by the Covid-19 crisis. Energy stocks are under pressure due to the lower oil price. **However, most of the underlying companies, while some are having structural challenges, have solid business models and produce earning power. It is just that they are deeply out of favour. And this may be about to change. Contrarian investors are starting to recognize the value of value stocks.**

I wish you a nice weekend,

Léon Kirch, CFA  
*Partner & Chief Investment Officer*  
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