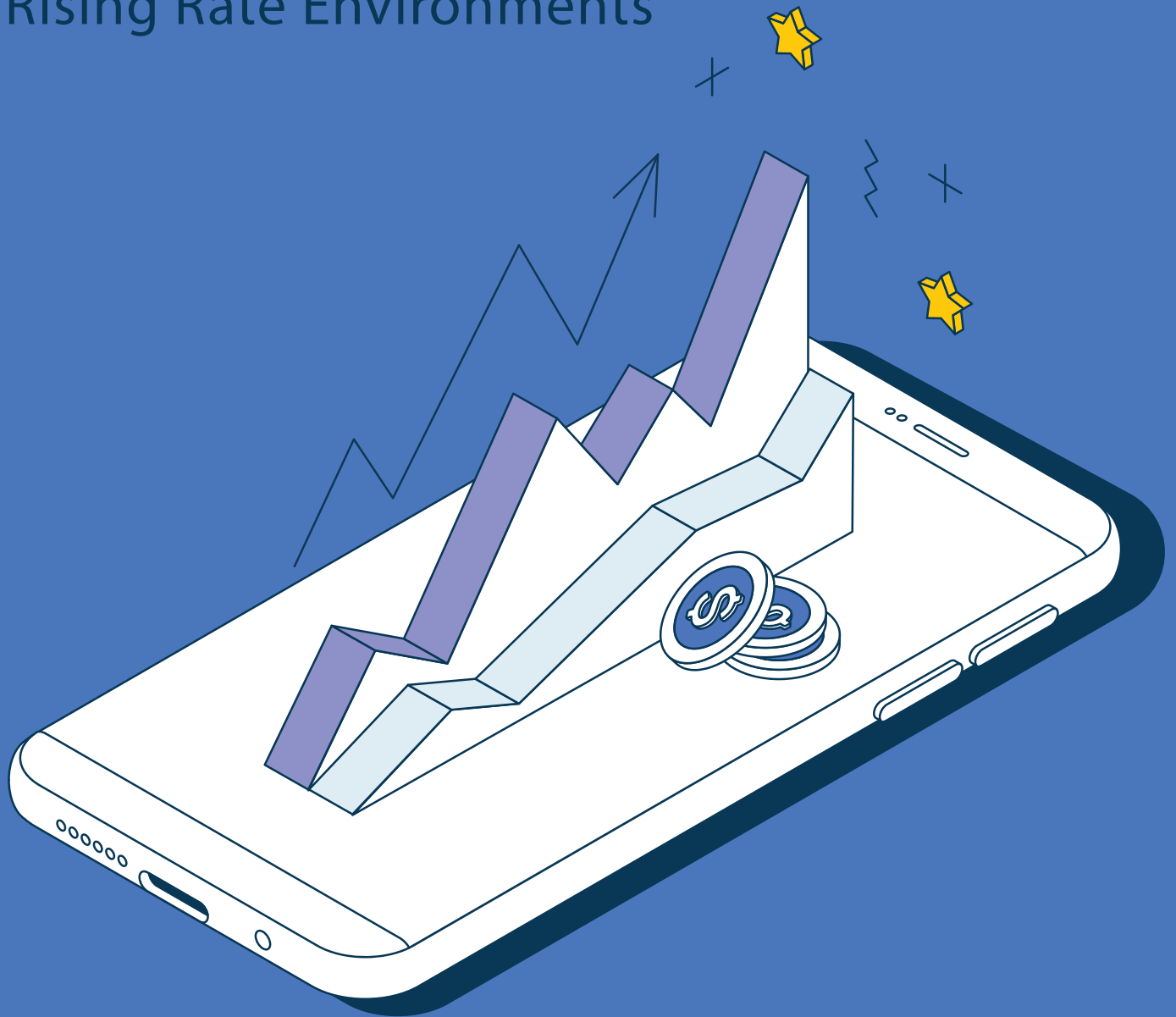


Why Value Stocks Have Outperformed

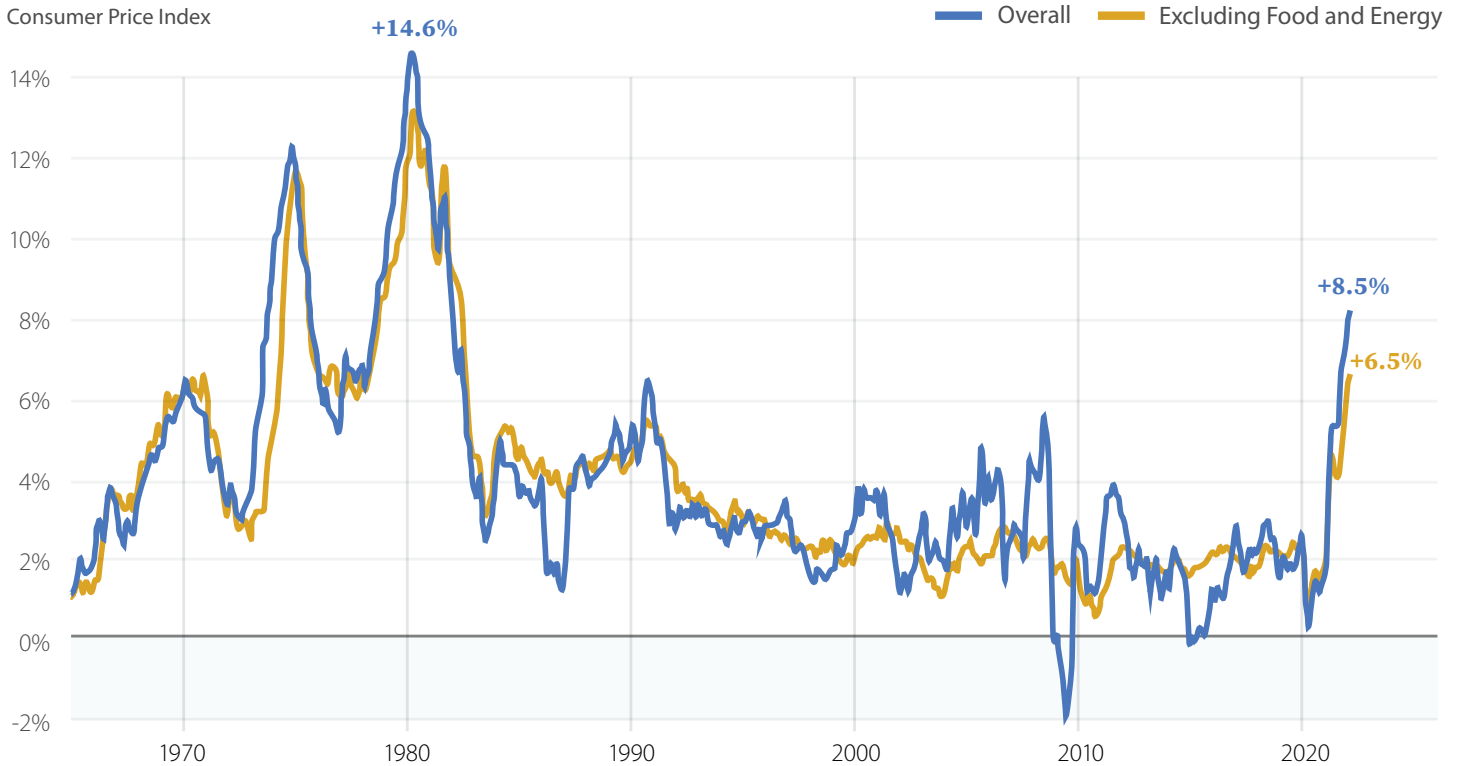
in Rising Rate Environments



INVESTMENTS

In a matter of two years, the Ukraine war, supply chain shocks, and COVID-19 have led inflation to multi-decade highs.

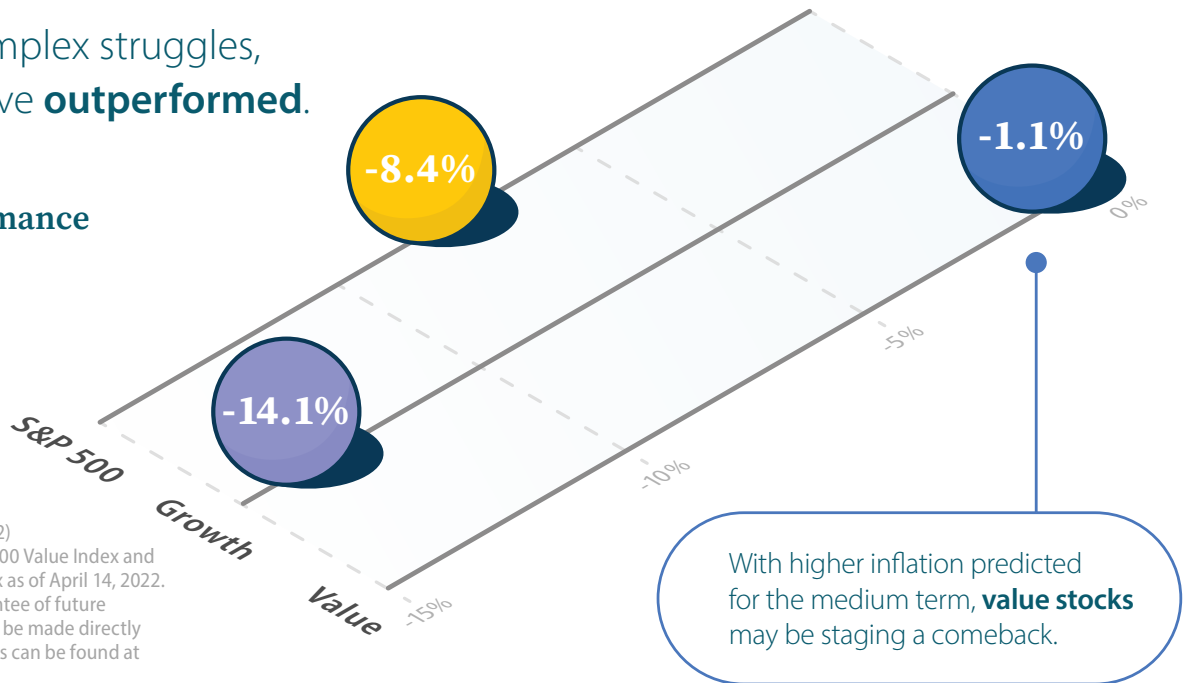
Inflation at 40-Year Highs



Seasonally adjusted.
Source: Bureau of Labor Statistics (Apr 2022)

Amid these complex struggles, value stocks have **outperformed**.

Value Outperformance 2022 YTD



Source: FTSE Russell. (Apr 2022)
Represented by the Russell 1000 Value Index and the Russell 1000 Growth Index as of April 14, 2022. Past performance is no guarantee of future results. An investment cannot be made directly into an index. Index definitions can be found at the end of this piece.

With higher inflation predicted for the medium term, **value stocks** may be staging a comeback.

As investors look to de-risk their portfolios, many are turning to value stocks, thanks in part to their strong fundamentals and historical outperformance during inflationary periods.

Value vs Growth: Key Characteristics

As a quick refresher, here are the **key distinctions** between value and growth stocks.

Value Investing

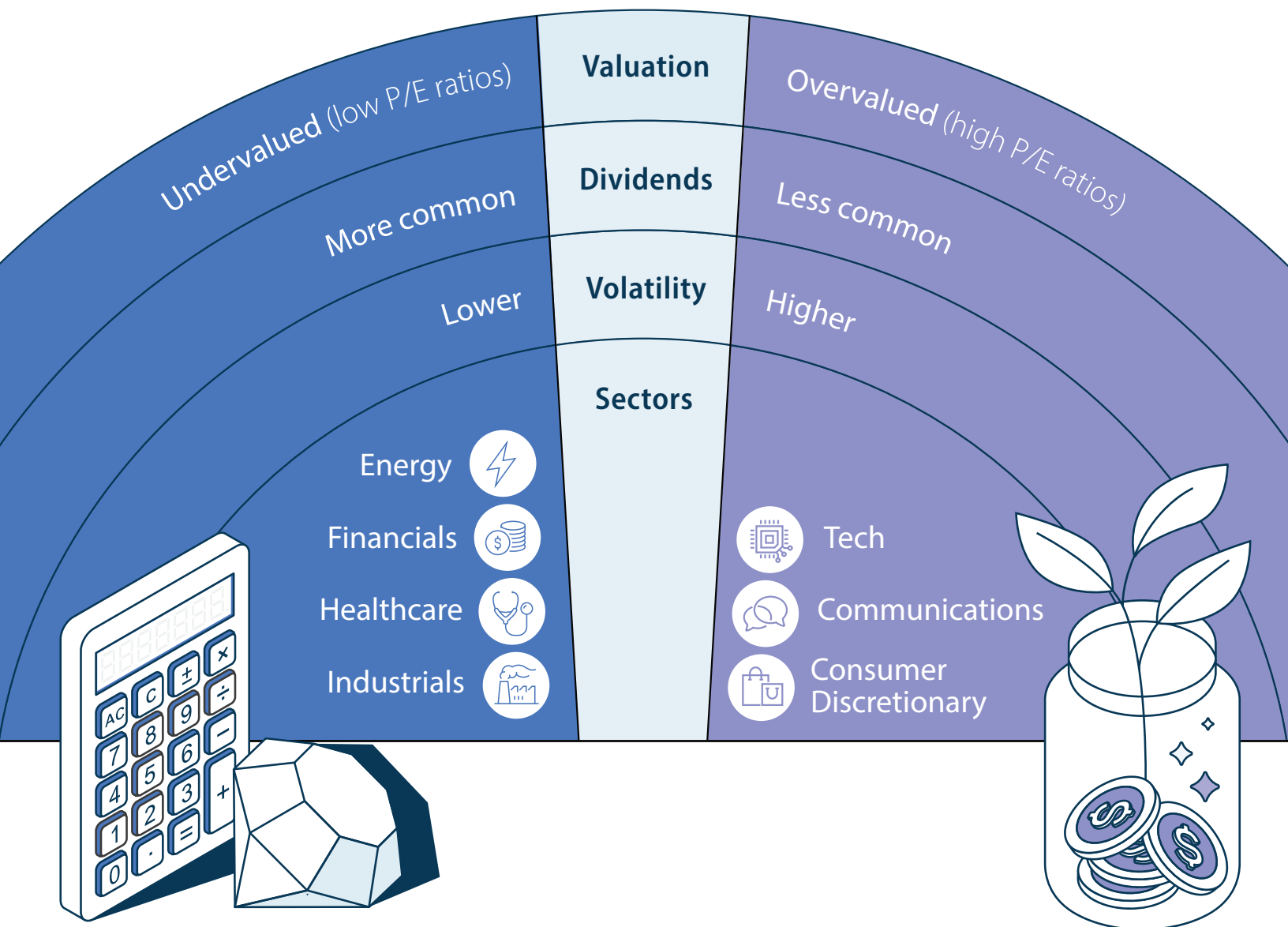
Companies with:

- Stronger cash flows
- Steady income
- Priced below intrinsic value

Growth Investing

Companies with:

- Lower cash flows
- Low (if any) income
- Strong earnings growth potential



Since companies earn money in different ways, it is often useful to **compare P/E ratios** within a sector.

A price-to-earnings (P/E) ratio is a metric for valuing a company.

$$\text{P/E Ratio} = \frac{\text{Stock Price}}{\text{Earnings Per Share}}$$

Undervalued

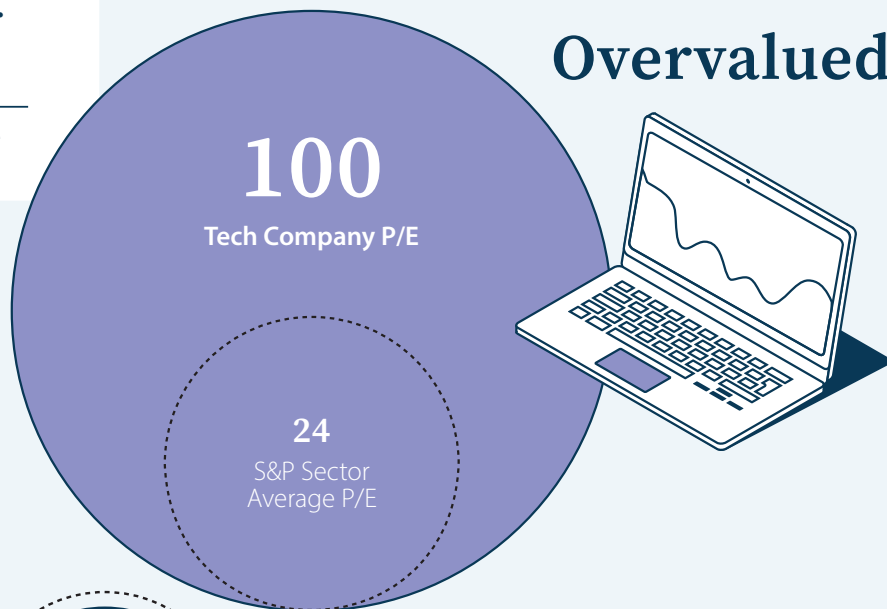


16
S&P Sector
Average P/E



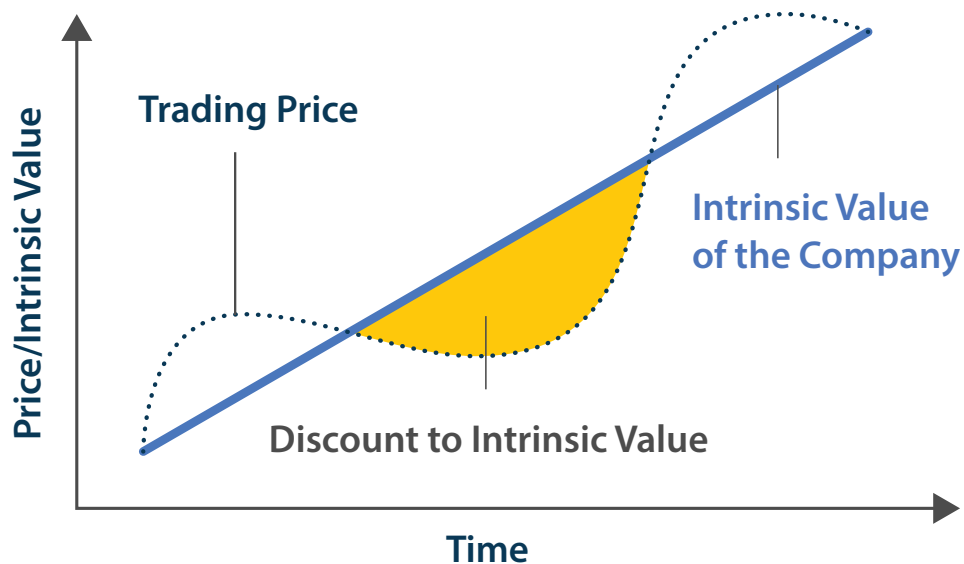
Cyclical sectors, such as financials and energy, often benefit when prices increase after an economic contraction.

Overvalued



When a company is undervalued it means that it's trading below its intrinsic value.

Discount to intrinsic value is when a company's market price is trading below its estimated intrinsic value. Buying a company at a discount to intrinsic value does not guarantee profit or protect against losses.

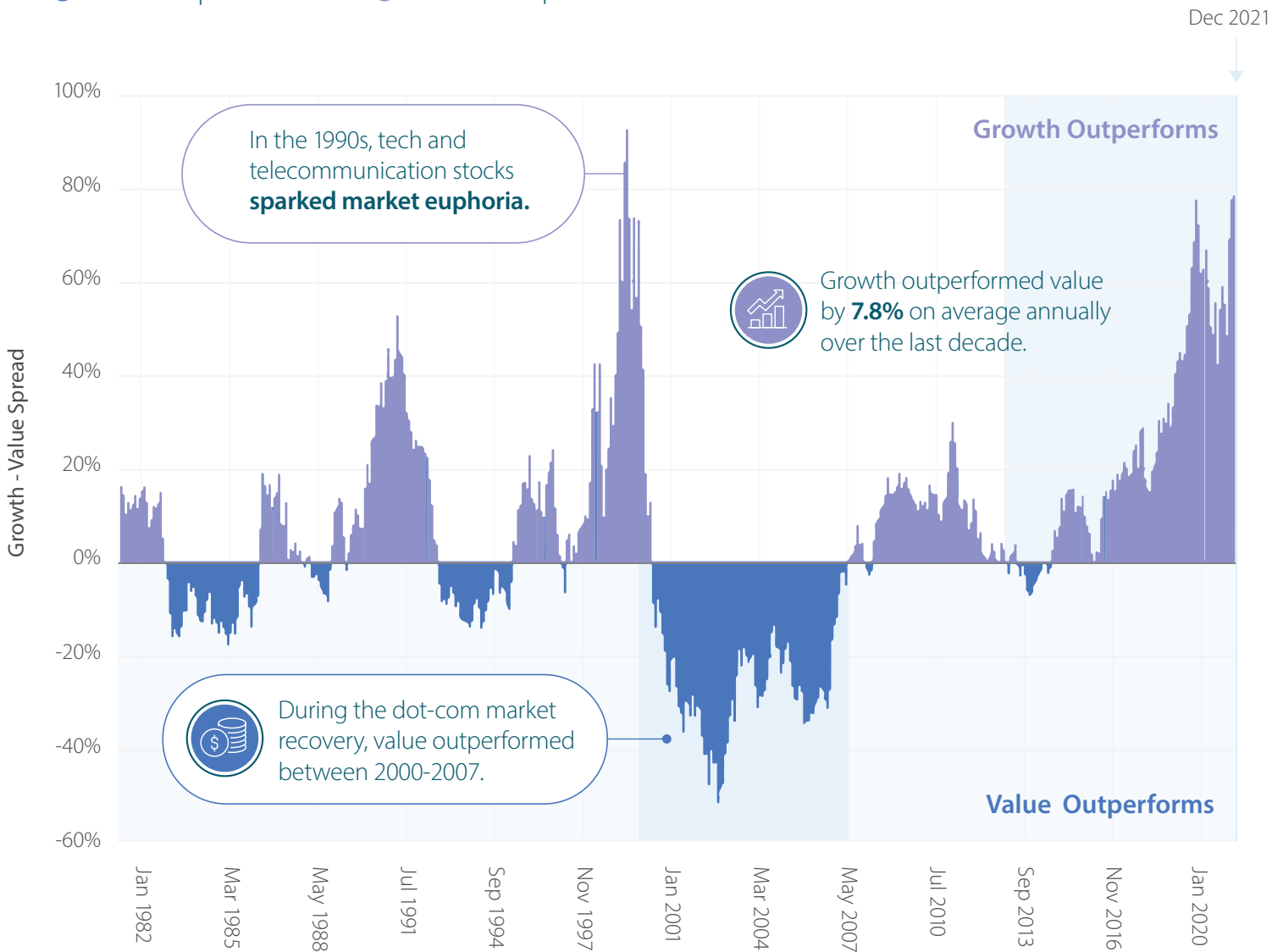


Value vs Growth: Performance

Looking back, **2011-2021** was the worst performance for value in several decades.

Value vs Growth Outperformance 1982–2021

● Value Outperformance ● Growth Outperformance



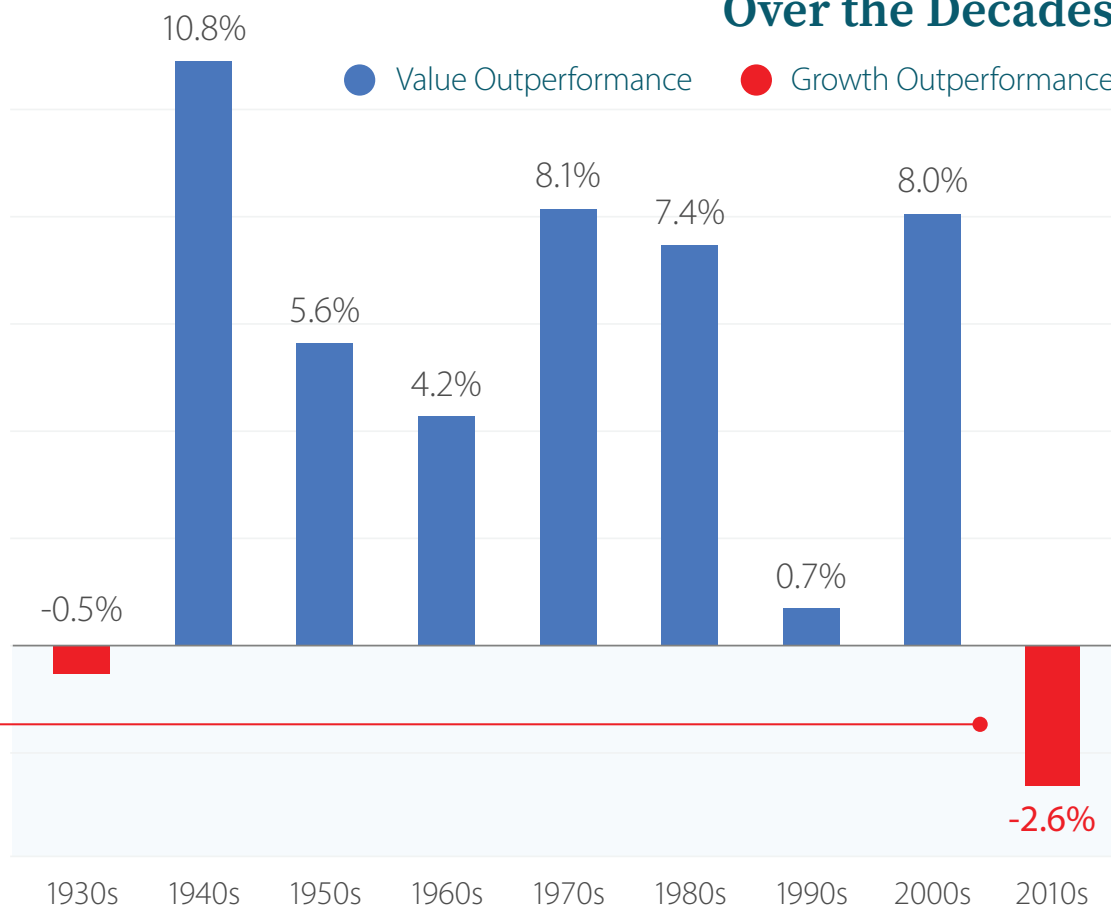
Source: Morningstar (Jan 2022)

Growth - Value Spread shows the excess return performance of either growth or value. It represents the difference in total return between the Russell 1000 Growth Index and Russell 1000 Value Index over rolling three year windows.

Past performance is no guarantee of future results. An investment cannot be made directly into an index. Index definitions can be found at the end of this piece.

However, looking at 10-year periods, value has outperformed growth over every decade since the 1940s.

Value Outperformance Over the Decades



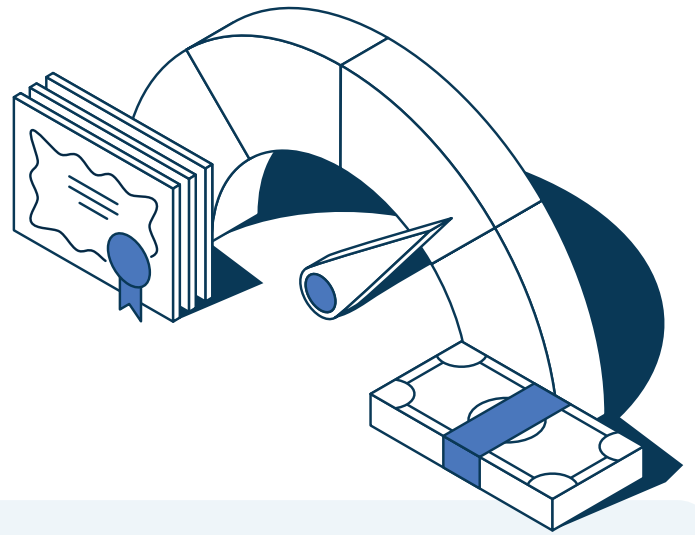
The 2010s was a **historical outlier**, with a strong bull market driving growth performance.

Source: Fama & French via Mercer (Mar 2021)
Average annual performance of Fama and French ("HML") value factor by decade.
Past performance is no guarantee of future results. An investment cannot be made directly into an index. Index definitions can be found at the end of this piece.

Now, against economic uncertainty and other structural shifts, the growth and value divergence is beginning to change for the first time in over a decade.

What is Driving Value Stocks?

On a broader level, the following forces have driven outperformance in value stocks and growth stocks:



Value



Rising interest rates



Inflationary environment



Market recovery



Long-term earnings track record

Growth



Low interest rates



Bull market



Disinflationary environment



Rising corporate earnings

So how do these apply today?

1

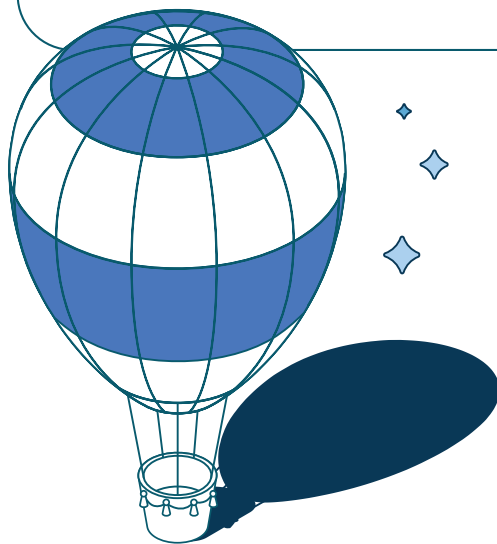
In an inflationary (and rising rate) period, current earnings tend to become more valuable and future earnings tend to become less valuable.

2

Typically “value stocks” are assessed based on their current earnings while “growth stocks” are valued on their future earnings.

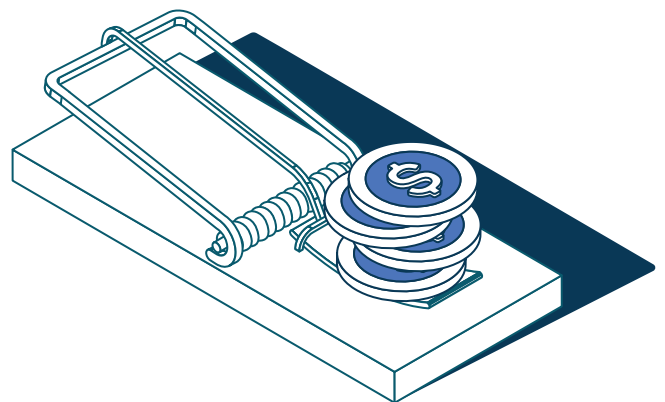
3

Consequently, inflationary periods have favored value stocks and deflationary periods have favored growth stocks.



When prices are climbing, companies with actual earnings are potentially better positioned to **increase prices and retain profit margins.**

At the same time, it is important for investors to avoid **value-traps**, which are companies trading below value that are in financial duress.



To help mitigate this challenge, active investment managers can help identify the appropriate companies.

Sign of the Times

It's worth noting that this **isn't about value vs growth**. Instead, different styles have performed better at different times.

Of course, it's important for investors to consider a number of variables for their portfolios:



With these in mind, investors can implement the best strategies to help achieve their goals.

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Diversification cannot assure a profit or protect against loss in a declining market.

Active management refers to a portfolio management strategy where the manager makes specific investments with an aim to outperform an index. Active management typically charges higher fees.

The Consumer Price Index measures the average level of prices in the U.S. based on a basket of goods and services over a given time period. The Consumer Price Index, excluding food and energy measures the average level of prices in the U.S. based on a basket of goods and services over a given time period without including food and energy.

The S&P 500 Index is widely regarded as the standard for measuring U.S. large-cap stock-market performance.

The Russell 1000 Value Index serves as a barometer for U.S. large-cap value stocks. It measures the performance of companies with relatively lower price-to-book ratios, lower estimated forecasted medium-term growth, and lower sales per share growth. **The Russell 1000 Growth Index** serves as a barometer for U.S. large-cap growth stocks. It measures the performance of companies with higher price-to-book ratios, higher estimated forecasted medium-term growth, and higher sales per share growth.

Fama and French ("HML") value factor is the High Minus Low (HML) factor that measures the average return on value portfolios versus the average return on growth portfolios. HML represents value companies with high book-to-market values that generate higher returns than the market, known as the value premium.

It is not possible to invest directly in an index. Past performance is not indicative of future results. Different time periods may have different results. This material represents an assessment of the market environment as of a specific date; is subject to change; and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding the funds or any particular issuer/security.

Impact investing and/or environmental, social, and governance (ESG) managers may take into consideration factors beyond traditional financial information to select securities, which could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. Further, ESG strategies may rely on certain values-based criteria to eliminate exposures found in similar strategies or broad market benchmarks, which could also result in relative investment performance deviation.

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