01:
Glenn Hart
co-head of equities
Antares Equities

In this edition, Glenn Hart, co-head of equities at Antares Equities, makes a strong case for 'value' stocks. In a series of charts, Hart explained that bullish sentiment and momentum has worked in favour of 'growth' stocks in recent times. The question then is, how should financial advisers and their investing clients assess the 'value' stocks in their portfolio at a time when 'growth' stocks have been the market darlings for a disproportionate amount of time?

This article features a chart that truly puts the 'value' versus 'growth' debate in the context of long-term investing, with data stretching over the years between 1975 to 2018. To find out what could be ahead for investors on both sides of the fence, read this article or watch our latest video interview with Richard Dixon.

Michelle Baltazar
Michelle Baltazar
Director of Media & Publishing

How much longer can "value" be on the outer?

Will value come back? Can investors expect a cyclical style rebound as has been evident in the past? Glenn Hart, co-head of equities at Antares Equities, sheds some light on the 'growth' versus 'value' performance to date.

Benjamin Franklin warned of the dangers of group think and being swept up by momentum. This sentiment may be prescient when considering the recent performance of the Australian stock market. Since its low in February 2016, the S&P / ASX 200 has risen by around 28%, which appears to be a consistent and positive market performance. But when we look beneath the surface a massive divergence is revealed.

The term "bipolar" best describes the performance of "growth" and "value" as Figure 1 highlights.

Momentum has been with the growth stocks.

In a similar vein, Figure 2 shows mid cap stocks have outperformed large cap shares over the same period.

Growth stocks

Growth stocks generally have high perceived earnings growth, both short and long term, a history of strong EPS growth and strong sales growth. Often they will be market darlings and trade on very high PE multiples as their earnings are expected to keep growing at a faster rate than the market. Growth typically perform well in times of optimism, favourable economic conditions, and when investors are looking for high returns and are much less risk averse. Thoughts about preservation of capital generally diminish in these periods.

Value stocks

Value stocks generally have much lower perceived earnings growth potential and therefore higher payout ratios and dividend yields due to the lack of growth options. They usually trade on low price to book, and price to earnings multiples, at what is thought to be less than their intrinsic value. Sometimes they will be companies in industries suffering a cyclical downturn and experiencing challenging times.

Australian "value" type stocks have recently been in a period of very sluggish earnings performance for reasons including, but not limited to, earnings disappointment, digital disruption and a myriad of problems in the financial sector, banking in particular. And because many of the "value" type stocks are also typically high yield, they, along with bond proxy type stocks, appear to have been negatively impacted as investor attention seems to be focussed on rising US bond yields.

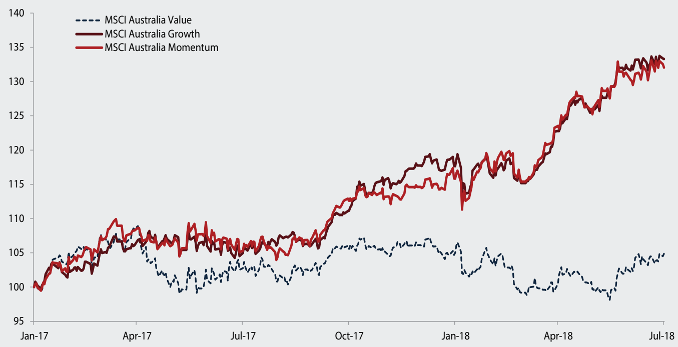
Historically there has been a cyclical relationship between value and growth as Figure 3 highlights. This divergence has accelerated recently with "value" clearly out of favour and the relativity looks about as stretched as it has been in recent history.

But will value come back? Can investors expect a cyclical style rebound as has been evident in the past?

Our view is that the price of growth stocks has risen more than the growth forecast in their earnings, which appears to be driven by sentiment and momentum. Market thematics seem to be quite "crowded", and we do not expect such a stretched historical relationship to keep expanding permanently.

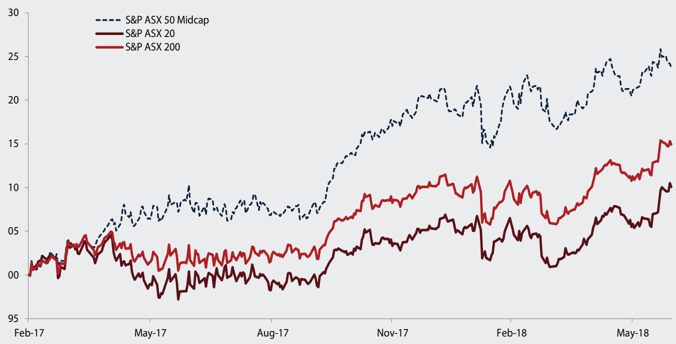
There is also the prospect that value could rebound quickly if investor sentiment turns negative or risk appetite declines. **FS**

Figure 1. Total returns by style



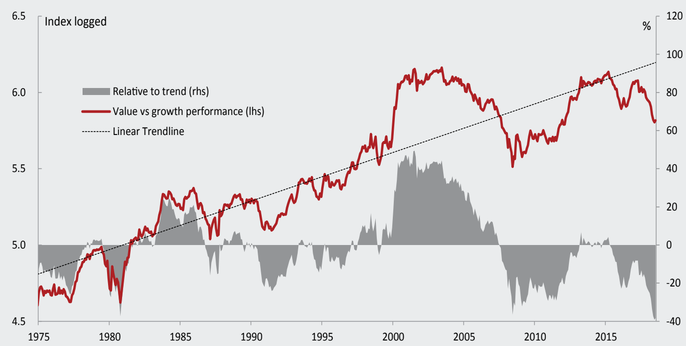
Source: MSCI, July 2018

Figure 2. Index comparison



Source: FactSet, June 2018

Figure 3. MSCI Australia Value relative to Growth



Source: MSCI, July 2018