



Daily Macro Insights: Revisiting the Value case

15/07/2021

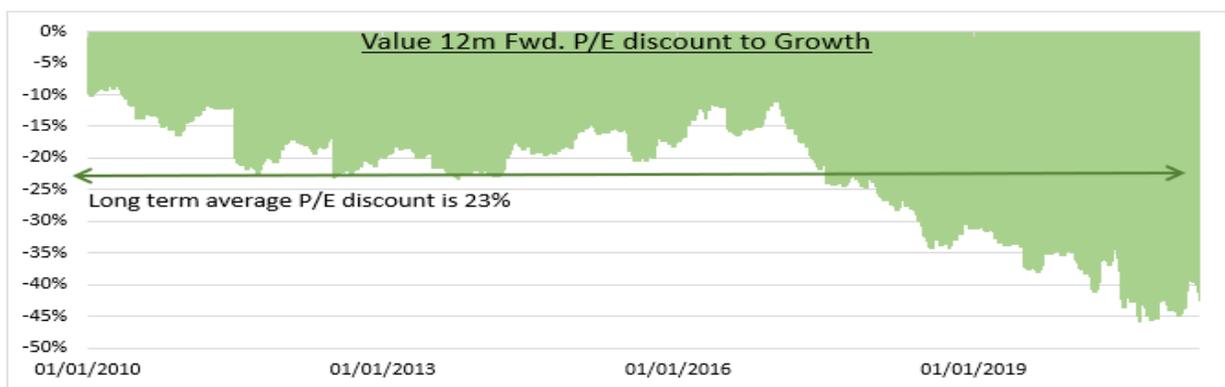
FINANCIALS LEAD: Financials kicked off earnings season, strongly beating expectations but seeing lower stock prices. Value has reverted to long-term trend in recent weeks significantly underperforming Growth, on top of its 300%+ two decade underperformance. We see this ultimately reversing and Value again leading markets higher, as growth fears fall ('delta' variant eases and vaccination rates rise) and bond yields increase (as Fed moves to tightening policy). Value is more growth sensitive, much cheaper, and less well-owned after its underperformance.

EARNINGS: Both Value and Growth styles are forecast to see similar +35% EPS growth rates over the next year, but this masks that Value earnings are much more depressed, and sensitive to the GDP recovery. This can also be seen on a micro level looking at our [Re-openers](#) vs work from home (WFH) baskets, where earnings are only 5% of pre-pandemic levels vs WFH +40%. This means they have 'earnings leverage' (EPS/Revenue growth) a multiple of Growth sectors.

VALUATION: Value 12m forward P/E discount is at a near historic -43% (see chart), over 20pp greater than its long-term average. This offers both some valuation re-rating upside in a bullish scenario, but also downside protection from the biggest market risk we see, namely valuations falling from record highs as the Fed moves to tighten monetary policy and bond yields rise.

INSTRUMENTS: [Financials](#) (XLF) is the largest Value component in the US. Large (IWD) and small cap (IWN) Value styles are available, along with Growth (IWF). A caveat to our Value bullishness is that a third the index is made up of more defensive segments, such as healthcare and consumer staples, which are less sensitive to the cyclical GDP surprise we see.

TODAY: China Q2 GDP +1.3% QoQ, on expectations. With strong July retail sales (12.1% yoy) and industrial production (8.3%) this eases growth fears after authorities just loosened policy.



Source: Refinitiv, eToro calculations

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