Insights
Systematic Equity — Active

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Waiting for Value: Time to Reassess 'Cheap' Equities?

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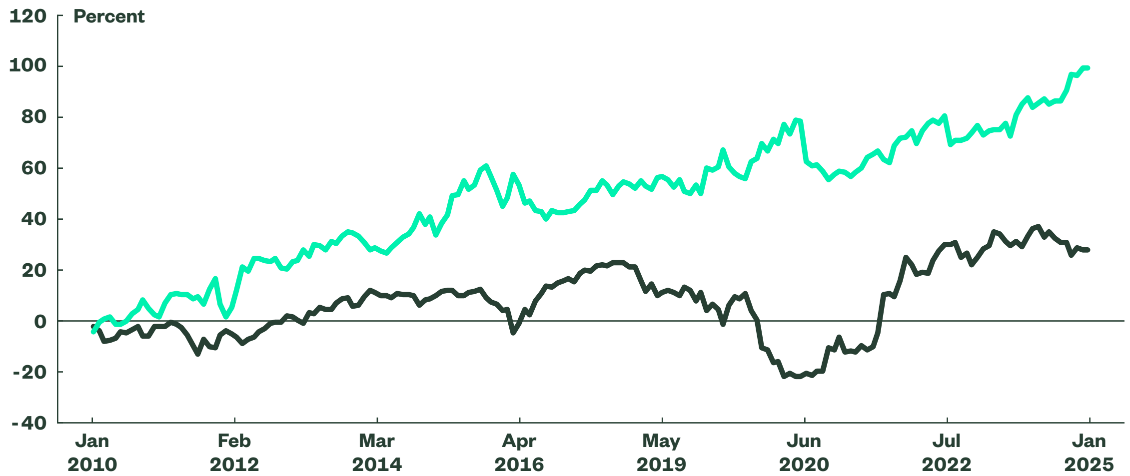
Tariffs and trade wars have dominated recent headlines, and market participants have been attempting to discern what this might mean for equities. An interesting development of late has included glimmers of outperformance in a part of the market that has been out of favor for some time. We look under the hood of the Value factor and assess prospects for further outperformance.

Value Underperformance

Although there is no universally recognised definition of the Value factor, it can be characterized along a spectrum — starting with single simple metrics such as the price-to-book ratio up to sophisticated multifaceted measures. The latter approach may combine multiple signals: some traditional, some advanced, and some using alternative data and advanced analytical techniques to drill down into the drivers of return for a company to build specific valuation measures for its business model. One of the inputs we use for our Systematic Active strategies to a large extent uses this method. This sophisticated approach has delivered outperformance compared to a simpler value metric: however, this approach has struggled to gain consistent traction over the past few years as equity markets were driven forward by the sustained strong demand for a concentrated band of growth stocks.

Using an Earnings Yield metric[2] as an example, we can see the weak performance of traditional Value in the period after the Global Financial Crisis (GFC), particularly when compared to an analogously traditional Price Momentum measure.

Figure 1
Cumulative Spread Return of Value Lagged Price Momentum in post-GFC Period

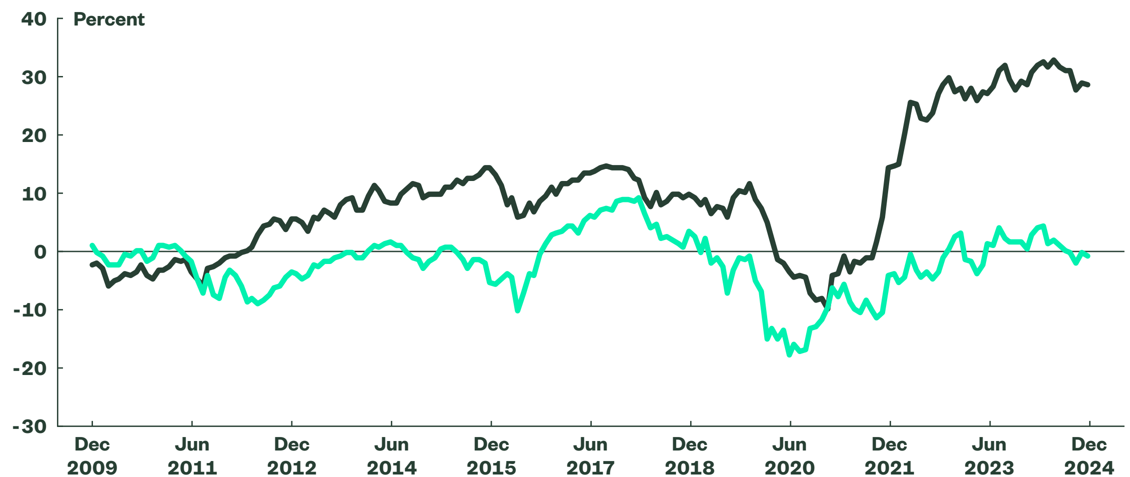


Source: State Street Global Advisors as of January 31, 2025. Calculated as the Cumulated Spread of top and bottom quintile returns for each factor. Past performance is not a reliable indicator of future performance. Factor returns are unmanaged and do not reflect the deduction of any fees or expenses.

Value Performance Drivers Shift Over Time

At the risk of oversimplification, there are two main drivers of outperformance for Value as a factor: either cheap stocks can outperform, or expensive stocks can fall (or some combination of the two). Since the GFC, any period of strength in developed markets' Value returns has come more from weakness in the expensive end rather than strength via a rebound in cheaper names. In the immediate post-COVID period, when Value had a significant bounce it came from being underweight the very expensive "stay-at-home" trade names, rather than a reflation in cheaper stocks (Figure 2).

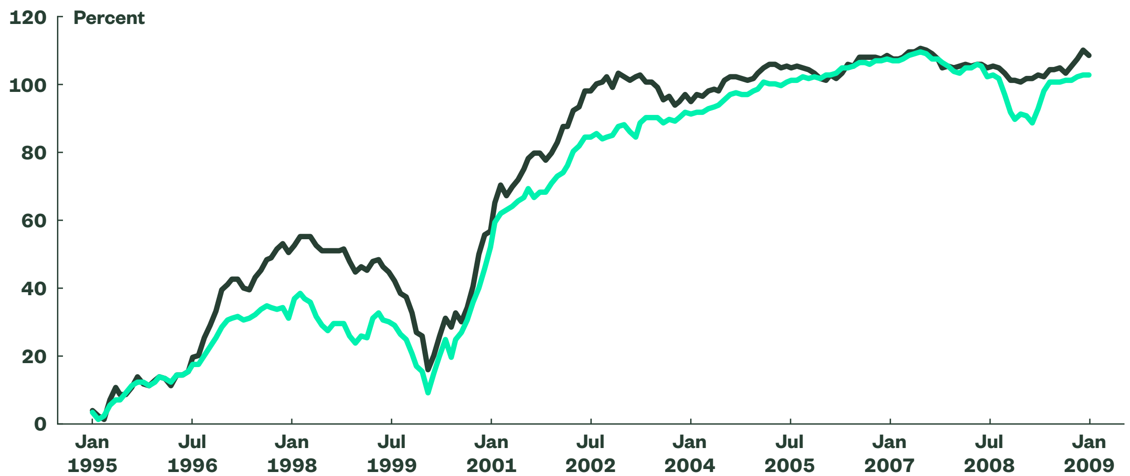
Figure 2
Contribution to Value Spread Returns from Cheap and Expensive Quintiles (2009–2025)



Source: State Street Global Advisors as of January 31, 2025. Calculated as the Cumulated returns of top and bottom quintiles of Earnings Yield vs benchmark. Past performance is not a reliable indicator of future performance. Factor returns are unmanaged and do not reflect the deduction of any fees or expenses.

In the pre-GFC period, the relative contribution of overweights versus underweights was more evenly split between the two cohorts. The most notable contributions came from the long side in market rebounds after the bursting of the "TMT bubble" from the early 2000s and in the immediate reflation in early-2009 at the height of the financial crisis (Figure 3).

Figure 3
Contribution to Value Spread Returns from Cheap and Expensive Quintiles (1995–2009)



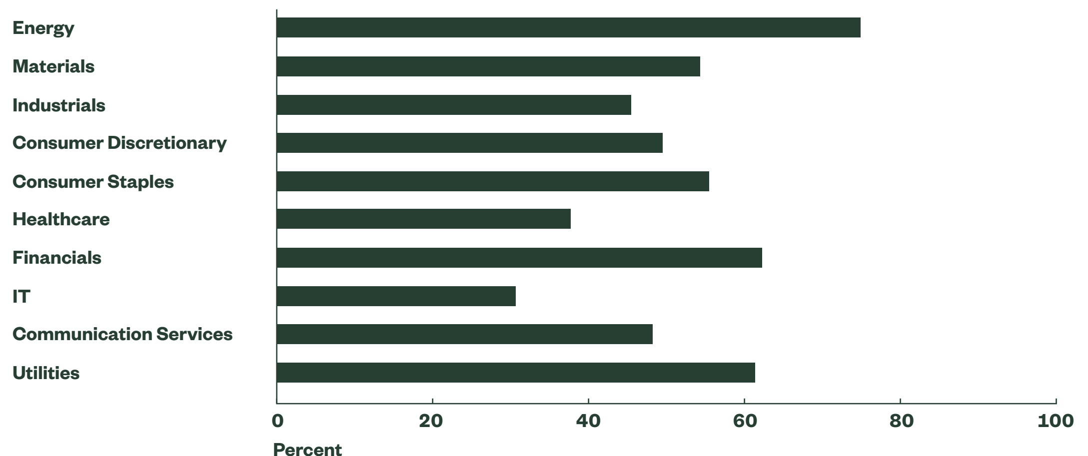
Source: State Street Global Advisors as of January 31, 2025. Calculated as the Cumulated returns of top and bottom quintiles of Earnings Yield vs benchmark. Past performance is not a reliable indicator of future performance. Factor returns are unmanaged and do not reflect the deduction of any fees or expenses.

Cheap Stocks Outside Technology and the US

The headline price-to-earnings ratio for the MSCI World Index currently sits at 19.5 times forecast earnings over the next 12 months, compared to an average of 15 times over the last 20 years. Within that broad average, however, there are pockets of cheapness and pockets of overvaluation. Europe is one of the regions that stands out as representing good value (see Prospects for a Turnaround in European Equity Fortunes), as does Japan. The spread between these countries and valuations in the US remains significant.

At a sector level (Figure 4), commodity sectors such as Energy and Materials look cheaper than average but suffer from weak earnings that have been downgraded further during the most recent earnings season. A rerating remains hard to see until earnings stabilize. The Financials sector also stands out as being notably cheap. As one might expect, the in-vogue Information Technology sector ranks as the most expensive.

Figure 4
Average Value[2] Score by Sector



Source: State Street Global Advisors as of January 31, 2025. Calculated as the average rank Value score for all stocks within each sector ranging from 0 (most expensive) to 100 (cheapest) across the Developed Market Large Cap Universe.

The Bottom Line

Value as a theme has struggled to gain regular traction in the period since the GFC. Broad traditional value measures, in particular, have been buffeted by macro and market events. Trade wars (twice), economic concerns, COVID, and a slow economic recovery after the financial crisis (apart from in the US) have been headwinds to cheaper companies delivering the outperformance they have historically delivered.

In our active strategies, we deploy more nuanced targeted measures of value at the stock level, rather than taking sizeable bets on a rebound in cheap countries or sectors. This approach has been beneficial, and we believe it is important to maintain an exposure to Value through the cycle — even when its performance has been challenged.

To get a meaningful rebound in more traditional Value, we would need to see contributions from a re-rating of cheaper names, rather than simply weakness in the most expensive cohort. Such a rebound would also be beneficial for broader markets, such as in Europe where relative performance has been hampered by concentrations in cheaper names. A weaker US dollar, stimulus in China, benign tariffs, and earnings acceleration outside of the US could all be triggers for such a rotation. Political risks, economic concerns, and rising trade tensions will likely keep the lid on animal spirits for now, but not for ever.

Endnotes

1 Equal-weighted combination of 12m Forward and Historic Earnings Yield.

2 Calculated as the equal weighted rank scores across Earnings Yield, Dividend Yield, Cash Flow to Price and Enterprise Value to EBITDA value scores.

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* Pensions & Investments Research Center, as of December 31, 2023.
† This figure is presented as of December 31, 2024 and includes ETF AUM of $1,577.74 billion USD of which approximately $82.19 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

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