

# The Misconception of Value Investing in the Eurozone

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There is an perception among many investors that Value Investing is a byword for underperformance. This perception is largely shaped by the experience of Value Investing in the United States, where growth stocks, and the so-called Magnificent 7 in particular, have dominated market performance. However, for eurozone investors, the reality is quite different.

## Value Investing in the Eurozone has Outperformed

Over the last five years, value stocks in the eurozone, as measured by the MSCI EMU Value Index, have outperformed the core index by 0.4% p.a.(Figure 1). Looking at the three-year period, value has pulled further ahead, outperforming the core index by 1.6% p.a.<sup>1</sup> This challenges the common narrative that value is a losing strategy and highlights the importance of looking beyond market sentiment and region-specific dynamics.

Figure 1  
**Sustained Value Outperformance in Eurozone**

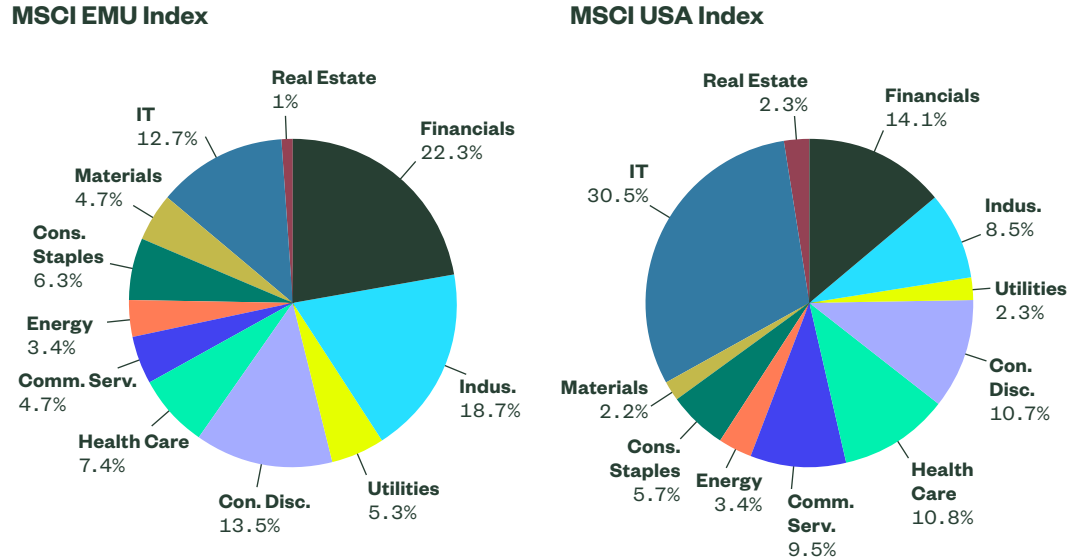
|                       | 1 Year (%) | Annualized |            |
|-----------------------|------------|------------|------------|
|                       |            | 3 Year (%) | 5 Year (%) |
| MSCI EMU Value Index  | 22.9       | 13.0       | 11.4       |
| MSCI EMU Index        | 15.1       | 11.4       | 11.0       |
| MSCI EMU Growth Index | 7.6        | 9.5        | 10.3       |

Source: MSCI, net index returns, as of 28 February 2025. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable. Performance returns for periods of less than one year are not annualized.

## The Difference Between the US and Eurozone

The performance of the US equity market has been heavily driven by a small group of high growth technology companies, leading to the perception that growth investing is the only winning strategy. However, the eurozone market is structurally different, with a more balanced sector composition that has allowed value stocks to hold their ground. To get a sense of that difference, the IT sector makes for a great example: the eurozone index has a 12.7% exposure, significantly lower than the >30% weight in the US index (Figure 2).<sup>2</sup>

Figure 2  
The Sector Differential — Eurozone vs. US



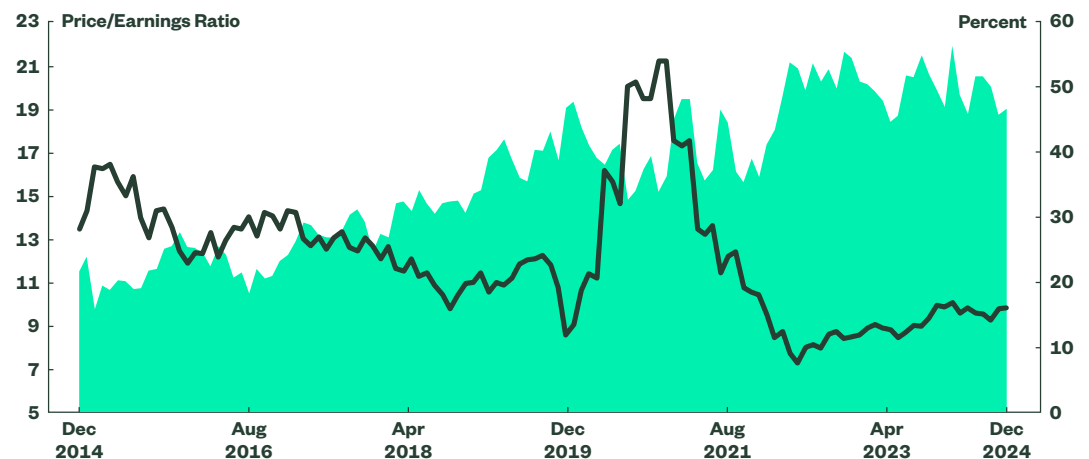
Source: MSCI as of 28 February 2025.

## What is Behind Value's Strong Performance in the Eurozone?

**Valuation Gap** Many value stocks in the eurozone were, and still are, trading at significant discounts to historic averages, in both absolute and relative terms. At the start of 2025, the eurozone value index was trading at a price-to-earnings (P/E) multiple of 9.8x, which is at the lower end of its 10-year historic range and 18% below the 10-year median of 12.0x (Figure 3).<sup>3</sup> In contrast, the core index P/E was trading at a premium of c. 50% to that of the value index — close to 10-year highs.

Figure 3  
Value Discount Near Record

■ Value Index P/E (LHS Axis)  
■ Core vs. Value P/E Ratio (RHS Axis)



Source: Bloomberg Finance L.P., MSCI as of 31 December 2024. Past performance is not a reliable indicator of future performance.

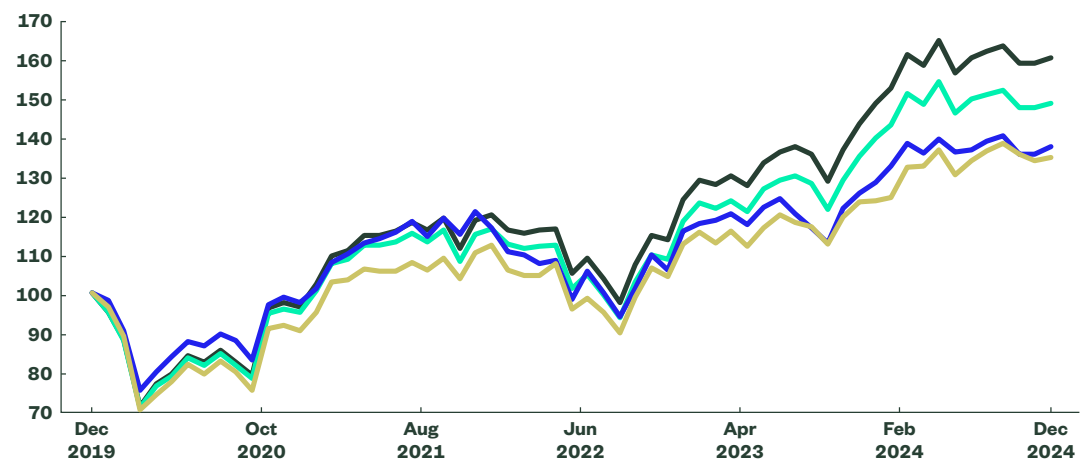
A major factor in this large discount being created over the past few years has been the Ukraine/Russia war which pushed energy prices (e.g. natural gas) to historically high levels, impacting the competitiveness of the euro area. The prospects of an end to the war have improved over the course of the last 12 months, contributing to a pick-up in performance by value stocks as falling gas prices softened the headwinds facing the economy.

**Eurozone Financials Revival** Over the last year, the strong performance of the eurozone Financials sector, and of banks in particular, has been a key driver of Value’s outperformance. The MSCI EMU Banks Index was trading on a P/E of <6.0x in February 2024, a significant discount versus historic averages and US peers and reflective of very low expectations for the sector. More positively for investors, capital levels are generally resilient and significant regulatory changes are largely behind the industry. In addition, earnings estimates have been rising as the benefits of higher interest rates have flowed through to profits. Eurozone interest rates may be declining but this is still a more favorable environment for banks compared to the zero interest rates endured by the industry for much of the last decade.

**The Case for Active Value Investing** While the broader eurozone market has a balanced sector composition, the MSCI EMU Value Index is more concentrated — financial stocks account for 37% of this index.<sup>4</sup> The SSGA Eurozone Value Spotlight Strategy has outperformed both the eurozone core and value indices over the last three and five years (Figure 4). We believe that one of the strategy’s key advantages is its comparatively broad diversification, mitigating the sectoral concentration risks inherent in the value index such as the aforementioned weight in financials stocks (Figure 5). This allows for a more balanced approach to capture Value opportunities across different sectors and different economic environments.

Figure 4  
**Strategy Outperformance Over Five Years**

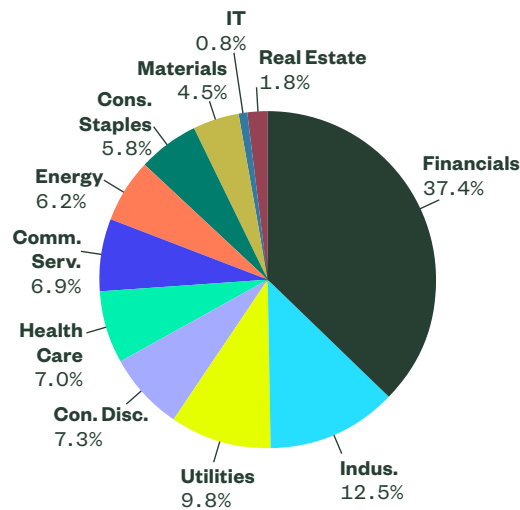
■ SSGA Eurozone Value (Gross)  
■ SSGA Eurozone Value (Net)  
■ MSCI EMU Index  
■ MSCI EMU Value Index



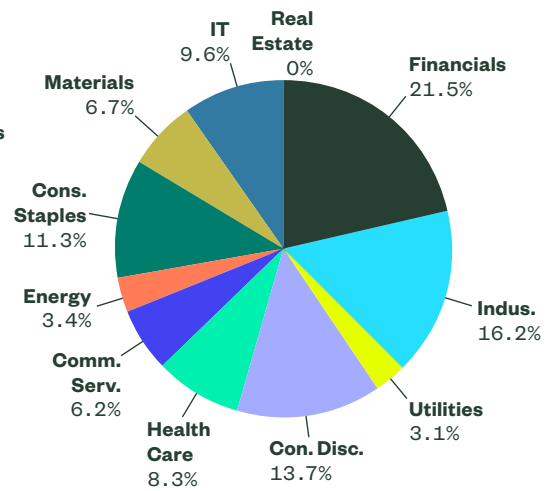
Source: State Street Global Advisors, MSCI, as of 31 December 2024.<sup>5</sup> Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable. Composite inception date: 1 January 2001. Cumulative returns have been calculated by geometrically compounding individual monthly returns. The performance shown is of a composite consisting of all discretionary accounts using this investment strategy. The performance figures contained herein are provided on a gross and net of fees basis. Gross of fees do not reflect and net of fees reflect the deduction of advisory or other fees which could reduce the return. The performance includes the reinvestment of dividends and other corporate earnings and is calculated in Euros. The above information is considered supplemental to the GIPS presentation for this Composite, which can be found in the Appendix or was previously presented. A GIPS presentation is also available upon request. These performance figures are provided gross of fees and expenses other than actual trading fees and expenses, and reflect all items of income, gain, and loss. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income and the reinvestment of dividends (net of withholding tax rates) and other income. Calculation for value added returns may show rounding differences.

Figure 5  
A More Balanced Approach

MSCI EMU Value Index



SSGA Eurozone Value Spotlight Strategy



Source: Bloomberg, MSCI, State Street Global Advisors. As of 28 February 2025.

## The Opportunity

For investors focused on the eurozone, dismissing Value Investing based on a global or US-centric narrative could mean missing out on substantial opportunities. The data demonstrates that Value has delivered competitive returns over the last 1, 3 and 5 years. Despite Value's recent outperformance the valuation gap between value and core indices remains wide. A recovery in the eurozone economy could help to further close this gap. The potential for the ending of the Ukraine/Russia war, in addition to the substantial spend on infrastructure and defense proposed by Germany, is likely to accelerate an economic recovery and favor value stocks. Our active strategy has delivered outperformance over the medium and long term and provides greater flexibility in stock selection and risk management, given the value benchmark's concentration in certain sectors. Our disciplined investment process has delivered long-term outperformance against core and value indices and we believe the fund is positioned well to benefit from further value outperformance.

## Endnotes

- 1 Source: MSCI, as of 28th February 2025.
- 2 Source: Bloomberg, MSCI, as of 28th February 2025.
- 3 Source: Bloomberg, MSCI.
- 4 Source: MSCI, as of 28th February 2025.
- 5 Composite inception date: 1 January 2001. Cumulative returns have been calculated by geometrically compounding individual monthly returns. The performance shown is of a composite consisting of all discretionary accounts using this investment strategy. Past performance is not a reliable indicator of future performance. Performance returns for periods of less than one year are not annualized. The performance figures contained herein are provided on a gross and net

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\* Pensions & Investments Research Center, as of December 31, 2023.

<sup>†</sup>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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The views expressed in this material are the views of Laura Jordan through the period ended 6 March 2025 and are subject to change based on market and other conditions.

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