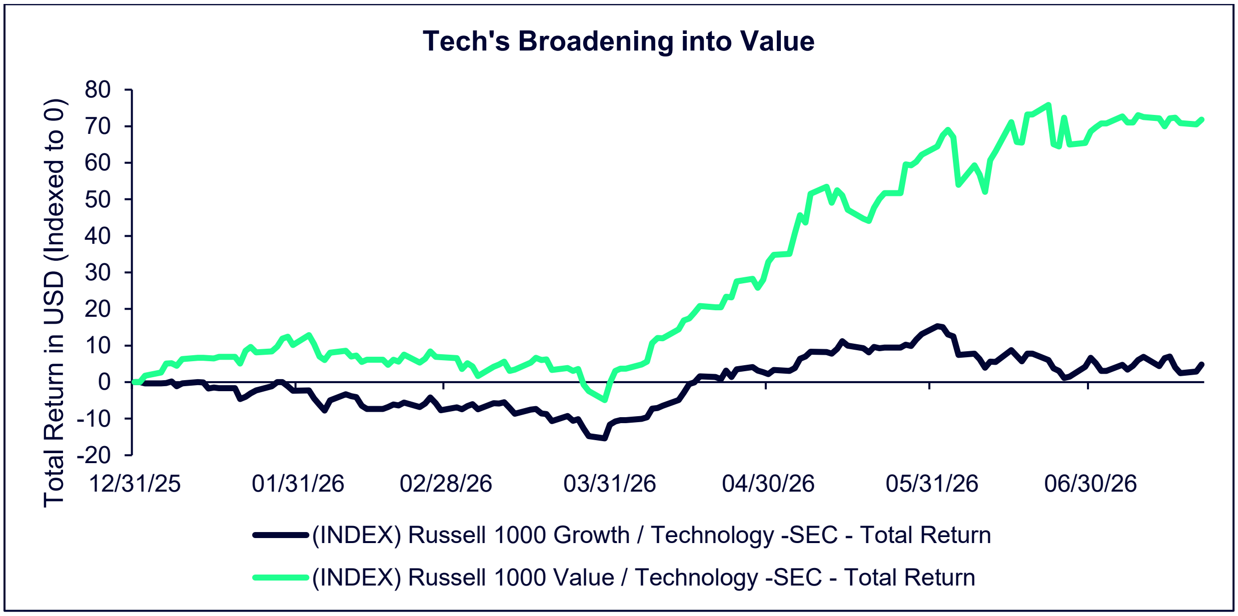
COMMENTARY
July 23, 2026

Mind on the Market

Chart of the Week



Source: FactSet, Total Return data in USD as of July 21, 2026.

Value is winning, and not for the reason most investors think. YTD, the Russell 1000 Value Index has outperformed the Russell 1000 Growth Index by roughly 15% (FactSet, as of July 21). We've previously examined the outperformance of small caps and the dynamics of EM equities as two lenses on the "broadening out" trade; Value is the third leg. As the COTW shows, this broadening is also showing up within tech itself, as Value tech names have outpaced Growth by nearly 70% YTD. While many investors attribute the move to a rotation into cyclical sectors, the reality is more nuanced. Today's Value index looks very different than it did years ago, reflecting both increased exposure to technology and a macro backdrop that continues to favor many of its 'traditional' sector exposures. So, we aim to answer the question: Why is Value working?

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STATE STREET INVESTMENT MANAGEMENT

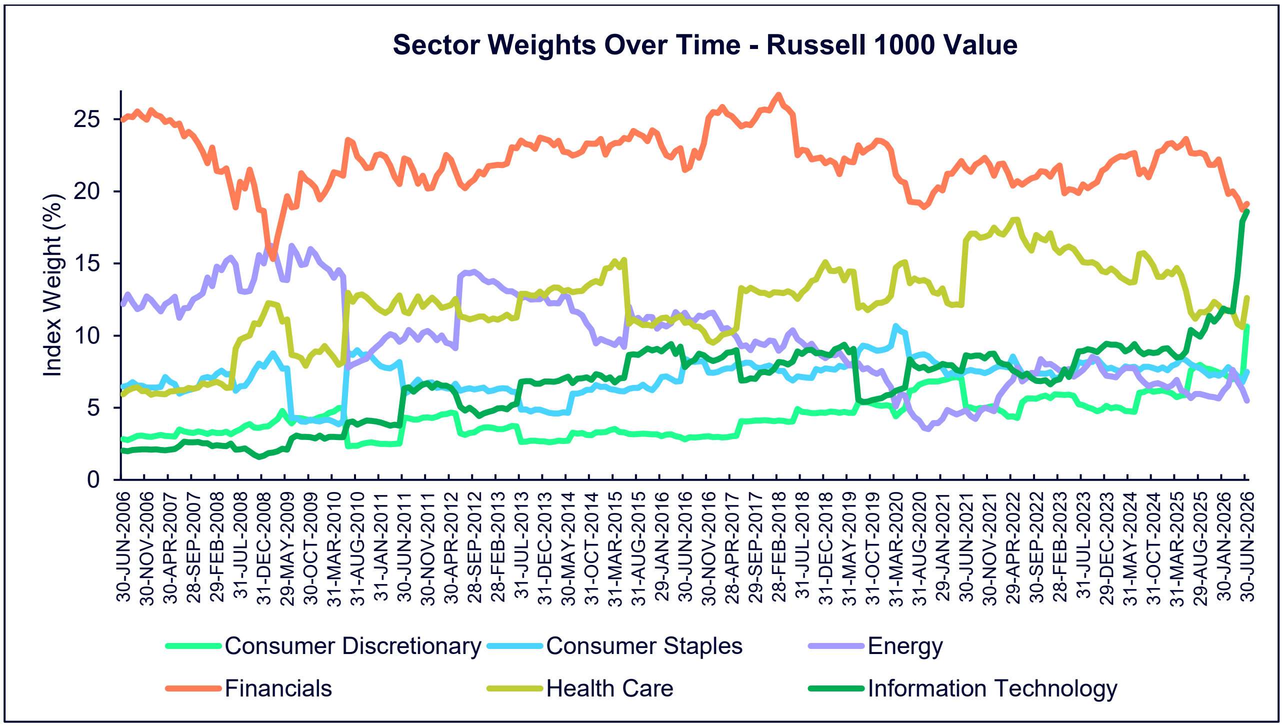
Weekly Highlights

YTD Performance of **Value Tech Sector**	Weight of **Technology** Sector in Value Index	**P/E NTM** of Russell 1000 Value
+71.8%	18.6%	17.5x
Source: FactSet, as of July 21, 2026. Total returns in USD.	Source: FactSet, as of June 30, 2026.	Source: FactSet, as of July 21, 2026.

Why is Value working?

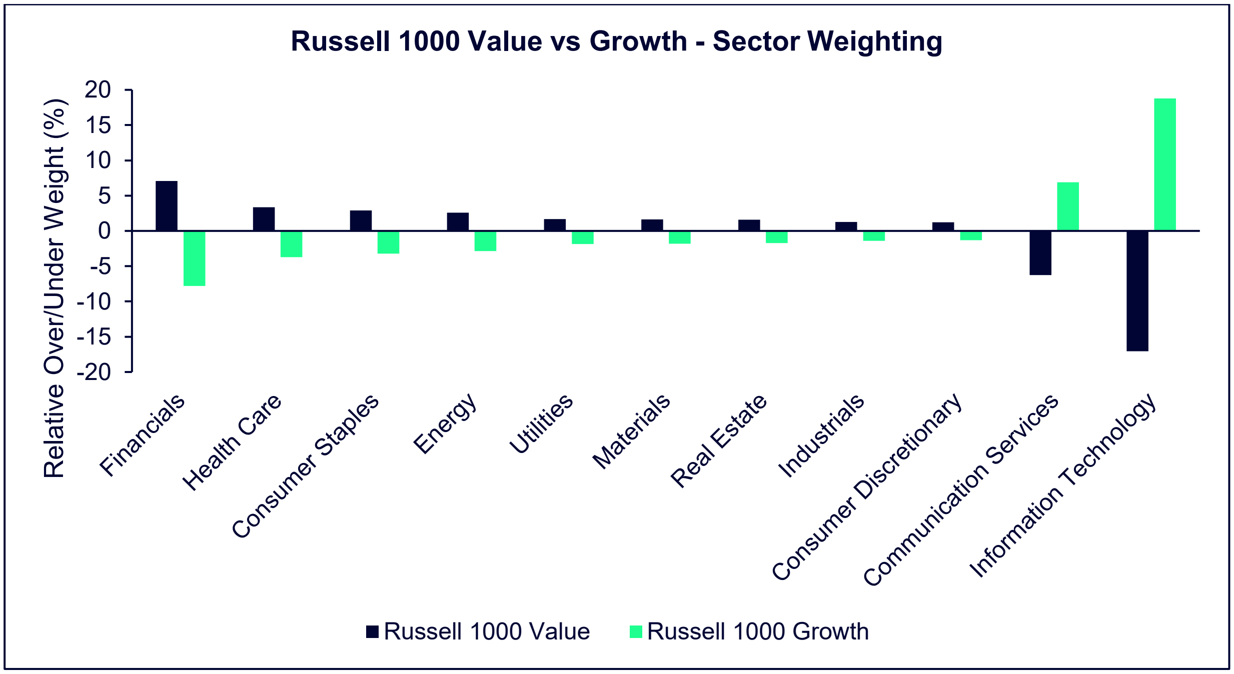
For one, technology has infiltrated Value. Relative to the core Russell 1000, the Russell 1000 Value Index underweights technology and communication services, while overweighting sectors including financials, health care, consumer staples, and energy (FactSet, as of July 21). Given that positioning, one would expect Value's YTD performance to be driven by its traditional overweight sectors. Instead, technology has been the single largest contributor to Value's YTD return, outpacing every other sector by a wide margin (FactSet, as of July 21).

That outcome reflects a structural shift that has occurred over the last two decades. Technology's weight in the Russell 1000 Value has risen from just 3.7% to roughly 18.6%, second only to financials (FactSet, monthly data June 30, 2006 – June 30, 2026). The "Value" label has increasingly captured a re-positioning of legacy and crossover technology names alongside traditional cyclical and defensive businesses. Perhaps, rather than serving as a direct counter-exposure to the AI trade, Value has quietly participated in it.



Source: FactSet, monthly data June 30, 2006 – June 30, 2026.

Traditional Value sectors have also delivered a strong first half of the year, with financials serving as a notable example. Financials within the Russell 1000 Value Index have returned roughly 6% YTD, outperforming their counterparts in the S&P 500 by 2.5% (FactSet, as of July 21). Earnings season has reinforced that strength, with several large banks – including JP Morgan, Bank of America, and Citigroup – reporting results during the week of July 13 that exceeded expectations. As a result, Financials have posted the second-highest Q2 earnings growth among Value sectors, trailing only Basic Materials (FactSet, as of July 21). Although the yield curve has meaningfully steepened out of its 2022-2024 inversion, supportive of banks' net interest margins over time, the 2s10s curve has flattened by roughly 16 bps over the past quarter (FactSet, using data March 31 - July 21). Yet, earnings have remained resilient, supported in part by the growing contribution of non-interest income to profitability. The observed strength in financials complements Value's outperformance story, given its overweight sectors as shown below. The Russell 1000 Value's sector weights relative to the core Russell 1000 – Financials, Health Care, and Consumer Staples – reinforce the Index's traditionally defensive tilt and position these sectors as key drivers of relative performance, in contrast to the Russell 1000 Growth's concentrated overweights to Information Technology and Communication Services.

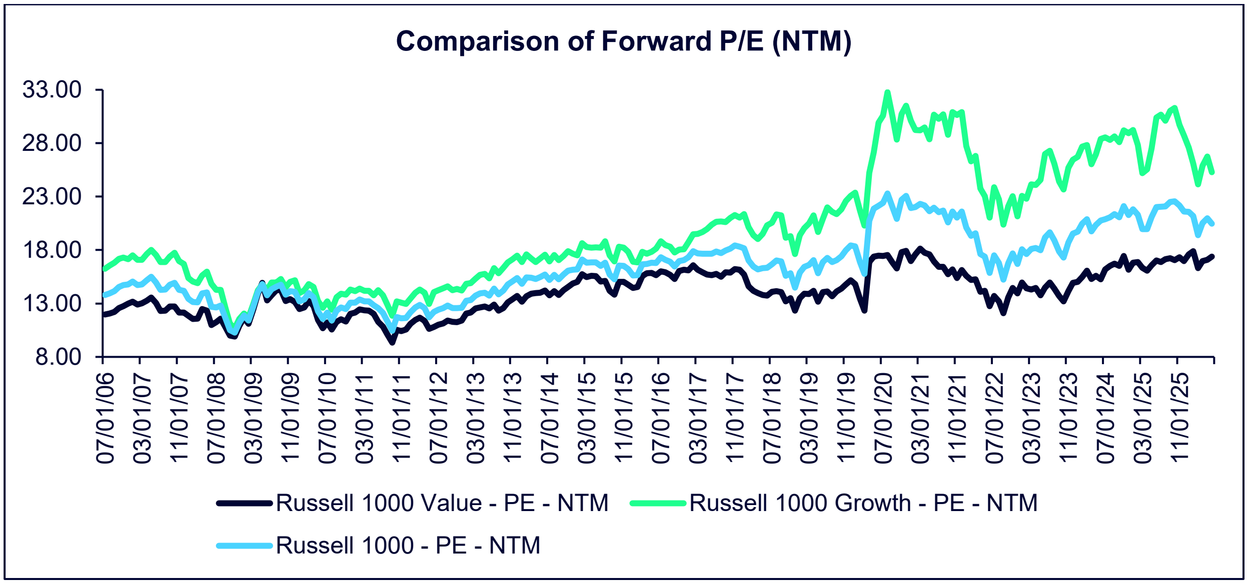


Source: FactSet, using data in USD as of July 21, 2026. Showing difference (relative over/under weight) in sector weights of Russell 1000 Value Index and Russell 1000 Growth Index relative to the Russell 1000 Index.

Health Care provides another example of how Value's composition has evolved. As the third-largest sector in the index at roughly 12.5% in weight, it combines traditional Value characteristics with exposure to innovation-driven growth themes. Advances in AI, computing power, data analytics, and automation have the potential to improve productivity across the value chain within biotechnology, pharmaceuticals, and medical equipment. Companies such as Johnson & Johnson, the top weighted constituent within the sector, have been outspoken about the use of AI, citing drug development as a key use case[1]. These dynamics create opportunities for the sector to participate in secular growth trends while maintaining many of the defensive traits investors typically associate with Value.

Valuations have also bolstered the attractiveness of the Value trade. The Russell 1000 Value currently trades at 17.5x forward earnings, versus 20.2x for the Russell 1000 and 24.2x for the Russell 1000 Growth (FactSet, as of July 21). All three sit above their 20-year averages, but Value is the least stretched of the three, and the Value-Growth multiple gap remains wide by historical standards.

[1] J&J sees AI halving the time to generate drug development leads | Reuters



Source: FactSet, using monthly data June 30, 2006 – June 30, 2026.

What the Sector Story Misses

While the headline sector and valuation story can help explain much of Value's YTD lead over Growth, a closer look beneath the sector level reveals nuances worth flagging for investors. The weighting methodology for the Russell 1000 Value sometimes results in a weighting scheme that underweights industries that have outperformed on their own. Hotel & Resort REITs (Real Estate) and Marine Transportation (Industrials) are prime examples. Hotel & Resort REITs was the top performer within Real Estate and fifth overall among all industries in the Index, returning roughly 45% YTD – yet, it contributed just 0.02 to total return, given its 0.05% weight (FactSet, as of July 21, 2026). Marine Transportation tells a similar story – the top performer within Industrials and sixth overall at roughly 35% YTD, but only 0.01 of contribution with a 0.02% weight. While both Industrials and Real Estate are overweight relative to their weights in the Russell 1000, sector-level overweights don't guarantee exposure to the industries that are actually driving performance underneath.

Relative Earnings Lag Growth

However, Value's lead over Growth is not being driven by a meaningful gap in earnings delivery. In Q1, Russell 1000 Value constituents grew earnings at 19.4%, while their Growth counterparts grew at roughly 38% (FactSet, as of July 21). Q2 consensus expectations were at 9.6% for Value and 33% for Growth, with early reported figures running above those levels but reflecting only a small share of the constituents thus far. While these numbers indicate healthy earnings growth for Value companies, they trail those of Growth, which also demonstrates the higher bar for earnings delivery typically expected of Growth companies. Free cash flow margins tell a similar story: both indices are operating above their 20-year averages, with Growth further above trend (FactSet, using monthly data June 30, 2006 – June 30, 2026). While this earnings outlook differential between Value and Growth might be expected by most investors, it further reinforces the narrative that Value's outperformance has been driven more by macro forces, sector dynamics, and relative inexpensiveness rather than superior fundamentals, which helps to inform the forward view.

Forward Outlook & Key Risks

The case for further outperformance of Value rests on three key conditions, but risks to each of these remain under watch:

First, AI-related capital expenditure, infrastructure buildout, and positive sentiment for future productivity gains must remain intact, as technology has become an increasingly important contributor to Value's returns.

Second, the yield curve must remain positively sloped, with the front end anchored. Financials continue to play an important role in the index, and a steeper curve is supportive of bank profitability. A curve flattening driven by either slower growth or higher front-end rates brought on by inflation expectations could reduce that tailwind.

Third, Value's valuation discount relative to Growth must persist. If earnings growth continues to widen in favor of Growth or if Value's multiples expand significantly, the relative attractiveness of the trade could diminish.

Ultimately, the Value trade can't be fully understood without knowing its history. Its composition has evolved enough that today's Value is a different exposure than it was ten or twenty years ago, now offering a blend of traditional cyclical exposures, technology participation, and relative valuation support. These are dynamics that investors should keep in mind when weighing Value allocations against tech-dominated headlines and macro narratives.

Source: State Street Investment Management, FactSet, S&P, Russell. Data as of 7/21/2026 unless otherwise stated. Total returns in USD unless otherwise stated. The performance data quoted represents past performance. Past performance does not guarantee future results. Investing involves risk, including the risk of loss of principal.

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