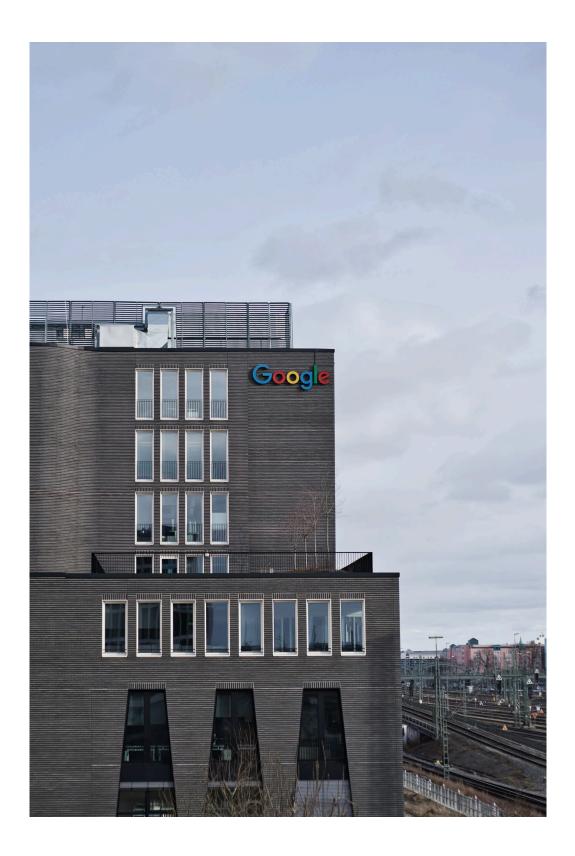


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## Value vs. Growth: Reshuffling the deck



Value investing typically means looking past glitzy, high-flying names to consider "unloved" companies with less hype. Value stocks tend to trade at a discount to fundamental metrics such as book value, earnings, sales or dividends. In contrast to Value stocks, Growth stocks are equities of companies with strong anticipated growth potential.

In the past, Growth stocks were synonymous with the so-called "FAANGs" and other household tech names, but this might no longer by entirely correct. Similarly, it seems the knee jerk reaction to classify energy stocks as Value plays may no longer be fully accurate either... Following a tumultuous 2022, a significant shuffle between the Pure Growth and Value indices has been observed, reflecting earnings and valuation shifts over the past year.

The Pure Value Index (SPXPV) has decreased from 119 to 85 members, while the Pure Growth Index (SPXPG) has grown from 58 to 73. This reshuffle is particularly noticeable at the sector level.

In the Pure Growth index, comprised of companies whose earnings are expected to grow rapidly in the future, fossil fuel firms have entered the fray. Exxon Mobil and Chevron are the best examples. Despite an urgent need to address global warming, which could impair the longterm viability of their sector, they both reported record profits for last year. Considering the entire energy sector, during what was a catastrophic year for financial markets, against the backdrop of the European energy crunch it provided returns of almost 60%. The S&P 500 fell by over 18%.

At the same time, large-cap tech companies stumbled, for both idiosyncratic and systemic reasons. The stay-at-home phase of Covid-19 played a major role in increasing the sales of tech firms and thus their profits in 2020 and 2021. However, the stage was set for a decline in their growth rates in 2022 with the "great reopening" and the subsequent economic recovery. Adding salt to the wound, the rise in interest rates dictated by central bankers as they attempt to contain inflation, has particularly hit the stock prices of tech companies as they rely heavily on the promise of sales and profits further out in the future (which are now subject to higher discount rates in present value calculations). As a consequence, Alphabet and some other tech behemoths have fallen out of the Pure Growth index.

What we have witnessed is a significant weakening in the tech-growth and energy-value connection. During 2022, technology's weight in Pure Growth fell to 13% (its lowest share since 2014), from about 36%, while energy has jumped to 29% (the highest since at least 2005), from 8%. Also worth noting, is the fact that within the Pure Value index, the weight of the Discretionary sector has increased from 11% to 17%.

These observations can be seen as some representative consequences of how much the world and its financial markets have changed following the Covid-19 pandemic and the onset of the war in Ukraine. Disclaimer

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