



ASSET ALLOCATION INSIGHTS

A Shift Toward Value

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KEY INSIGHTS

- As the rollout of coronavirus vaccines paves the way to normalization, U.S. and global gross domestic product (GDP) growth in 2021 may potentially be the strongest in decades.
- Investors may want to consider opportunities in asset classes such as value stocks, which could benefit from strong economic growth.

A post-pandemic economic recovery is underway, and millions of vaccines are being administered globally every day. The U.S. population is rapidly gaining protection against the coronavirus, and vaccination campaigns in a number of other countries, while slower, appear to be progressing in a positive direction.

As we move toward normalization—buoyed by unprecedented fiscal and monetary stimulus—many economists expect U.S. and global GDP growth in 2021 to be the strongest in decades. We think investors may want to consider opportunities in segments

likely to benefit from economic growth, such as small-cap and value stocks, with greater emphasis on the latter group.

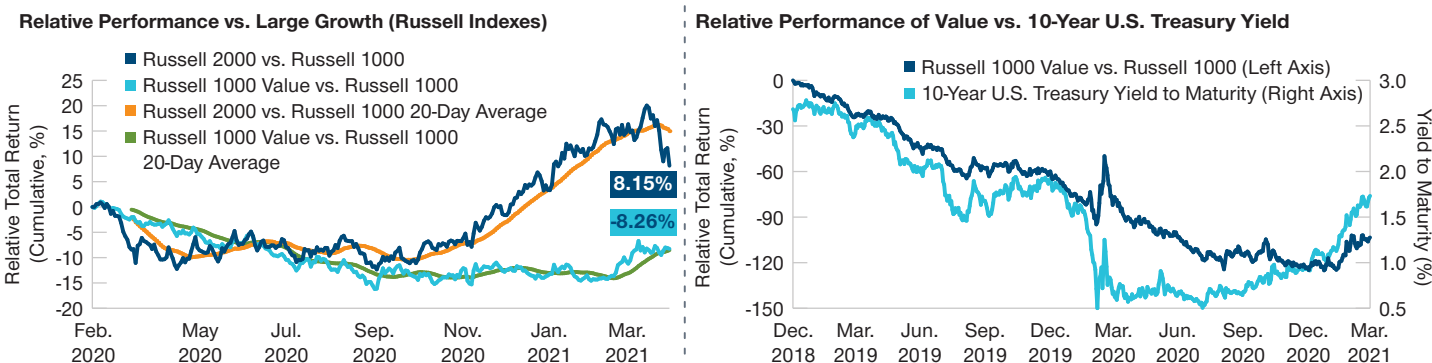
In the initial phase of the pandemic, small-cap and value stocks both underperformed, weighed down by lockdown restrictions and economic uncertainty. However, as optimism recovered, small-cap stocks rebounded much faster than value stocks and have now considerably outpaced large-cap stocks over the course of the pandemic.

Value stocks, on the other hand, have only begun to regain the ground they lost relative to growth in 2020. In recent years, value underperformance has been heavily influenced by falling interest rates, which created a headwind for financial stocks—a significant component of the value universe. Recently, however, the environment appears to have turned more supportive, and value stocks could be boosted by rising interest rates, higher inflation, and positive economic growth.

Therefore, while both small-cap and value stocks could likely benefit if economic growth accelerates, in our view, value stocks may offer investors more upside potential over the coming year.

Value Stocks Could Offer More Upside Potential

The tide may be turning for value stocks



Past performance is not a reliable indicator of future performance.

As of February 18, 2020, to March 29, 2021 (left chart), December 31, 2018, to March 29, 2021 (right chart).

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