

Financial News

Big investors snap up value stocks on hopes for vaccine

David Ricketts

The smart money has started rummaging in the stock market's bargain bin. Despite more than a decade of underperformance, some of the world's largest investors have started to pile into undervalued companies in the hopes that a Covid-19 vaccine will prompt a rally.

A Procensus survey of more than 150 global investors managing almost \$15tn, conducted earlier this month, found 35% of investors have bought so-called "value" stocks in anticipation of a vaccine being approved.

The poll by the online opinion sharing platform also showed that another 29% of the polled investors, who are spread across North America, Europe, Africa and Asia Pacific, are waiting for a pull-back in the market before they start to snap up value companies.

Value stocks – those which investors believe are undervalued relative to their earnings and growth potential – have been pummelled during the pandemic. Meanwhile, faster growing companies like Amazon and Netflix, so-called "growth" stocks, have rewarded investors with strong share-price gains.

Axa, Barclays, Credit Suisse and ING are among companies Bank of America last week identified among potential "value opportunities", predicting a 10% upside for European value stocks versus growth stocks by the first quarter of 2021.

Any shift into value stocks would mark a significant bet among investors

that fortunes are about to change for these companies, given they have consistently underperformed growth stocks since 2009.

Data shows the MSCI Growth index has outperformed the MSCI World Value index every year bar one (2016) over the past decade.

And growth has continued to outpace value so far this year. The MSCI World Growth index posted a 18.9% return to the end of September, compared to a decline of 14.6% for the MSCI World Value index.

Edward Troughton, partner at Oldfield Partners, a value manager that oversees \$3.5bn in assets, told *Financial News* a vaccine will inject "a massive amount of confidence" into the global economy.

"We are beginning to see institutional asset owners sniffing around for value managers.

"Given we are the 11th year into a growth versus value slide – and only one year of outperformance for value during that time – that's pretty remarkable," he said.

Troughton said some of the biggest opportunities were being thrown up in Europe and Japan.

"That doesn't mean to say we can't find any value plays in the States, we can and do, but they are few and far between," he added.

Amundi, Europe's largest asset manager, has also predicted a renewed interest in value stocks.

In a note to investors last week, it said: "The environment for growth stocks

has been ideal: interest rates have plummeted, and US technology companies have become increasingly dominant in the United States and abroad.

"However, we believe this ideal environment is unlikely to last. Inflation, which has been dormant for years, may rise as a result of stimulus measures. Historically, value has outperformed growth during inflationary periods."

Russ Mould, investment director at online platform AJ Bell, added: "There are many good reasons why value may make a return to favour relative to growth, although a lot of people have gone out of business waiting for this to happen, so there are no guarantees."

However, Mould says the outperformance of growth companies compared to value means "markets are lopsided", with the largest tech stocks now representing approximately a quarter of the S&P 500 and contributing two-thirds of the index's market cap growth over the past 12 months.

"That is \$3.1tn, meaning the other 494 names have gone up by just \$1.4tn among them, so surely there must be some value in there, as the US is not just a leader in technology," said Mould.

Not all investors polled by Procensus are convinced value stocks pose an opportunity, with just under 20% sticking by growth stocks to avoid a "value trap" – stocks that appear to be trading at a low valuation, but which are cheap for other reasons and fail to deliver a return.