

The views expressed in these posts are those of the authors and are current only through the date stated. These views are subject to change at any time based upon market or other conditions, and Eaton Vance disclaims any responsibility to update such views. These views may not be relied upon as investment advice and, because investment decisions for Eaton Vance are based on many factors, may not be relied upon as an indication of trading intent on behalf of any Eaton Vance fund. The discussion herein is general in nature and is provided for informational purposes only. There is no guarantee as to its accuracy or completeness.

[EQUITIES](#) | [HIGH CONVICTION ACTIVE](#) | [OUTLOOK](#)

2024 Outlook: Value Equity

By: Aaron Dunn, CFA | & Bradley Galko, CFA | December 11, 2023

Normalization of Supply Chains May Create Opportunity for Value Investors

KEY POINTS

1. While inventory destocking has been deep and painful, we believe the slate is now clean for companies in sectors that have been beaten down due to this phenomenon. We also continue to closely watch what we term the GLP-1 (or weight-loss drug) reversion trade — our assumption being that consumer goods companies will still have a place when the dust settles.
2. We're focusing on company-specific opportunities within the industrials, basic materials, semiconductors, consumer and utilities sectors.
3. We believe rates will be higher for longer, and a balanced approach among equity allocations will be key in this regime where risk has a price.

What We Are Seeing

Many who foresaw continued outperformance by value over growth stocks at the end of 2022 have been disappointed by this year's growth surge. However, when you look at the Russell 1000 Growth Index, excluding the seven heavyweights, the story becomes more surprising and murkier. Without the so-called Magnificent Seven — a group that includes Alphabet, Apple, Amazon, Meta Platforms, Microsoft, Nvidia and Tesla — the growth index's returns are far closer to those of the Russell 1000 Value Index in 2023. We believe we will see a broadening in performance, particularly if the Federal Reserve (the Fed) maintains or cuts rates.

It may surprise many that, on a three-year annualized basis, value is outperforming growth by over 3% (comparing Russell 1000 Value Index to Russell 1000 Growth Index returns over three years, as of 9/30/2023). The Fed now faces a challenging balance — how to control inflation and simultaneously support economic growth. This creates a change in the policy dynamic that has predominated since the Global Financial Crisis — a change which we believe makes a balanced equity exposure essential for investors.

What We Are Doing

We continue to invest in companies that have strong balance sheets, excellent management, and quality businesses. We are long-term investors, seeking out companies that are mispriced and trading at a discount to their intrinsic value.

Looking ahead, we believe opportunities may be found in the industrials, basic materials, semiconductors, utilities and consumer sectors. As supply chains are finally reaching the end of destocking, we expect this normalization to benefit certain sectors. Within industrials, we think deglobalization will continue to play a meaningful role, which we believe will benefit U.S. industrials. Within basic materials, we are focused selectively on those companies poised to take advantage of the end of inventory destocking and now execute offensively.

Utilities were significantly impacted in 2023 from the steep rise in interest rates. Although we believe rates are likely to stay higher for longer, we think they are appropriately captured in valuations today — both from the perspective of income investors and when considering costlier project financing.

Within consumer staples, we are focused on food companies and retailers perceived to be impacted with the major uptake in GLP-1 (glucagon-like peptide-1) weight-loss drugs. We believe these new drugs will have a meaningful impact on the market, but the numbers suggest that consumption reduction is overcapitalized in the shares of many leading companies. Still, we believe being a leader within food or a retailer who can quickly change and anticipate upcoming trends is essential.

What We Are Watching

The U.S. consumer. With savings rates at a low, credit card debt at a peak, fewer child tax credit payments, student loan relief ending, and the supplemental nutrition assistance program (SNAP) payments declining — the consumer now faces several headwinds.

Market concentration. We are observing concentration levels for market capitalization in the major indexes, and the amount of return driven by those indexes. We believe where there is less concentration, there is more opportunity to add value as an active manager.

Global economies. While we are primarily U.S. focused, global economies have a major impact on our companies. In this vein, we are tracking Germany's planning around energy consumption — their contracting (or not) for liquified gas terminals (LNG) will likely have potentially serious consequences.

Heading into 2022, based on correlations between broad indexes, we warned investors holding a typical 60/40 portfolio that they lacked a

diverse asset mix. While the numbers have shifted over the last two years, we believe it is important to be aware of the correlation between fixed income and various leading equity indexes, as simply indexing for U.S. exposure by solely holding a core U.S. equity position has not offered a great deal of diversification over the last few years.

Index definitions:

Russell 1000 Growth Index is an unmanaged index of U.S. large-cap growth stocks. Unless otherwise stated, index returns do not reflect the effect of any applicable sales charges, commissions, expenses, taxes or leverage, as applicable. It is not possible to invest directly in an index. Historical performance of the index illustrates market trends and does not represent the past or future performance of the fund.

Russell 1000 Value Index is an unmanaged index of U.S. large-cap value stocks. Unless otherwise stated, index returns do not reflect the effect of any applicable sales charges, commissions, expenses, taxes or leverage, as applicable. It is not possible to invest directly in an index. Historical performance of the index illustrates market trends and does not represent the past or future performance of the fund.

Risk Considerations: *The value of investments may increase or decrease in response to economic, and financial events (whether real, expected or perceived) in the U.S. and global markets. The value of equity securities is sensitive to stock market volatility. Diversification does not eliminate the risk of loss. Active management attempts to outperform a passive benchmark through proactive security selection and assumes considerable risk should managers incorrectly anticipate changing conditions.*



Aaron Dunn, CFA
Co-Head of Value Equity
Portfolio Manager
Eaton Vance Equity



Bradley Galko, CFA
Co-Head of Value Equity
Portfolio Manager
Eaton Vance Equity

"Looking ahead, we believe opportunities may be found in the industrials, basic materials, semiconductors, utilities and consumer sectors. As supply chains are finally reaching the end of destocking, we expect this normalization to benefit certain sectors."



Marketing Communication

To report a website vulnerability, please go to [Responsible Disclosure](#).

Eaton Vance is part of Morgan Stanley Investment Management, the asset management division of Morgan Stanley.

This website is operated by MSIM Fund Management (Ireland) Limited (MSIM FMIL). The business of Eaton Vance Global Advisors Limited was transferred to MSIM FMIL on 1 October 2021. MSIM Fund Management (Ireland) Limited has been appointed as management company of the Eaton Vance International (Ireland) Funds plc and is responsible for the distribution of the funds together with the distribution of Eaton Vance strategies and strategies of Eaton Vance affiliates. For any queries in respect of the products and strategies referred to on this website, please contact MSIM FMIL at 7-11 Sir John Rogerson's Quay, Dublin 2, D02 VC42, Ireland. MSIM FMIL is regulated by the Central Bank of Ireland with Company Number: 616661.

The value of your investment can go up or down so you may get back less than your initial investment. Past performance is not a guide to future returns.

The information on this webpage is not intended for U.S. residents. To visit our U.S. website [please click here](#).

Eaton Vance Management (Registration No. 1121368) and Parametric Portfolio Associates (Registration No. 1217626) are the registered trade marks of Eaton Vance.

