

Timely insights from portfolio managers and industry experts on key financial, economic and political issues.

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 strategy. The discussion herein is general in nature and is provided for informational purposes only. There is no guarantee as to its accuracy or completeness.

APRIL 26, 2022

Equities

Value Investors May Find Opportunities among Generational Shifts

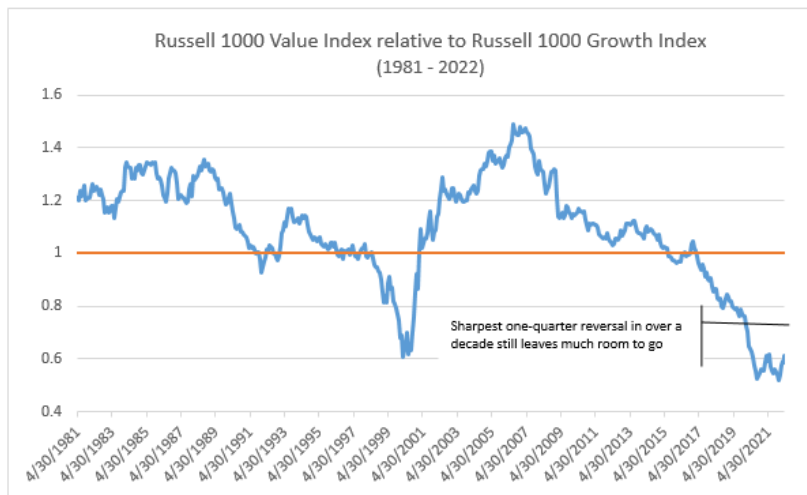
Boston - Value stocks are at an unprecedented valuation discount relative to growth stocks. We believe, despite some potential uncertainty ahead, there may be significant, generational opportunities for alpha¹ creation for value investors in today's markets.

Time for value?

As we entered 2022, we noted that the U.S. macroeconomic backdrop was broadly tilted in favor of value equities. We could not have predicted, however, that the Russell 1000 Value Index would outperform the Russell 1000 Growth Index by the widest margin of any quarter in over a decade. With bonds also experiencing a historically large sell-off, bonds and growth equities continue to be tightly correlated.

Our research shows that value equity indexes like the Russell 1000 Value —with their heavy weighting of cyclically sensitive sectors such as finance, energy and basic materials — tend to outperform during economic expansions, including 1981-1986, 1992-1993 and 2000-2006 as seen below.

Value stocks trading at an unprecedented discount relative to growth stocks



Source: Bloomberg, Eaton Vance research as of March 31, 2022.

Rough waters ahead?

Looking ahead, we do not anticipate smooth sailing, as crosscurrents abound. Portions of the economy are still in the process of reopening — in many



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



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

"The ability to navigate these crosscurrents effectively can lead to opportunities for alpha, which helps to make a compelling case for active equity portfolio management."

instances with significant pent-up demand — though there are still monetary policy, geopolitical demand and supply chain risks.

While cyclically oriented sectors tend to outperform during economic expansions, the performance challenge of these sectors over the past several years was less about anemic economic growth and, instead, driven more by the method in which economic growth was achieved. Federal Reserve monetary policy, both through the control of short-term interest rates and use of its balance sheet to control the longer end of the yield curve, produced structurally lower profitability for the financial sector.

Additionally, inflation is high, at rates not witnessed in 40 years, threatening corporate profit margins with rising input costs. Labor rates are increasing as competition for a more mobile — and virtual — workforce heats up, and offshore sources of low-cost labor disappear with modernization.

Russia's invasion of Ukraine has rattled markets and served to underscore global trends that were starting to take shape: Long-term underinvestment in critical commodities would eventually lead to tightening supply dynamics, while a new paradigm in inflation and interest rates would settle in for longer than expected.

Making the case for active management

Investors who feel unsettled in choppy markets may seek the psychological safety of consensus views. But the ability to navigate these crosscurrents effectively can lead to opportunities for alpha, which helps to make a compelling case for active equity portfolio management.

During times like these, we seek opportunities to invest in strategically advantaged companies with the potential for high financial returns and strong cash flow generation. Just as important, we look to invest in companies that are out of favor or misunderstood by the broader market — and trading at a discount to their intrinsic value.

Bottom line: Inflation, interest rates, global supply chains, labor costs, the Russia/Ukraine war and a technology-fueled productivity boom are having a wide-reaching impact on the global economy. The world is changing, yes, but we think many of these once-in-a-generation trends could favor value investing.

1. Alpha is the excess return or value added (positive or negative) of the portfolio's return relative to the return of the benchmark.

Russell 1000® Value Index is an index that measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

Investing entails risks and there can be no assurance that any strategy will achieve profits or avoid incurring losses. It is not possible to directly invest in an index. Past performance does not predict future results.

Active management attempts to outperform a passive benchmark through proactive security selection and assumes considerable risk should managers incorrectly anticipate changing conditions.

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.



[Accessibility](#) | [Privacy & Security](#) | [Terms & Conditions](#) | [Form CRS](#) | [Contact](#)

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.

For USA PATRIOT Act Disclosure Notice please click [here](#).

The information on this Web site is for U.S. residents only. The information on this Web site does not constitute an offer to sell, or a solicitation of an offer to purchase, securities in any jurisdiction to any person to whom it is not lawful to make such an offer.

There are no guarantees regarding the achievement of investment objectives, target returns, portfolio construction, allocations or measurements such as alpha, tracking error, stock weightings and other information ratios. The views and strategies described may not be suitable for all investors. Not all of Eaton Vance's recommendations have been or will be profitable. Eaton Vance does not provide tax or legal advice. Investing entails risks and there can be no assurance that Eaton Vance (and its brands) will achieve profits or avoid incurring losses. Prospective investors should consult with a tax or legal advisor before making any investment decision.

NOT FDIC INSURED | OFFER NO BANK GUARANTEE | MAY LOSE VALUE | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY | NOT A DEPOSIT

© Eaton Vance Management. All rights reserved. Two International Place, Boston, MA 02110