

Value equities

VALUE EQUITIES: CHARTING A NEW COURSE

They say a picture paints a thousand words and this chart should give even the staunchest growth investor pause for thought.

Sometimes words are not enough; pictures are more powerful. In an industry dominated by data, charts can help investors to make sense of investment markets and assess their possible future trajectory. We spoke to the Artisan Partners U.S. Value Team who have crunched the numbers to create insights on value stocks and where they might go from here.

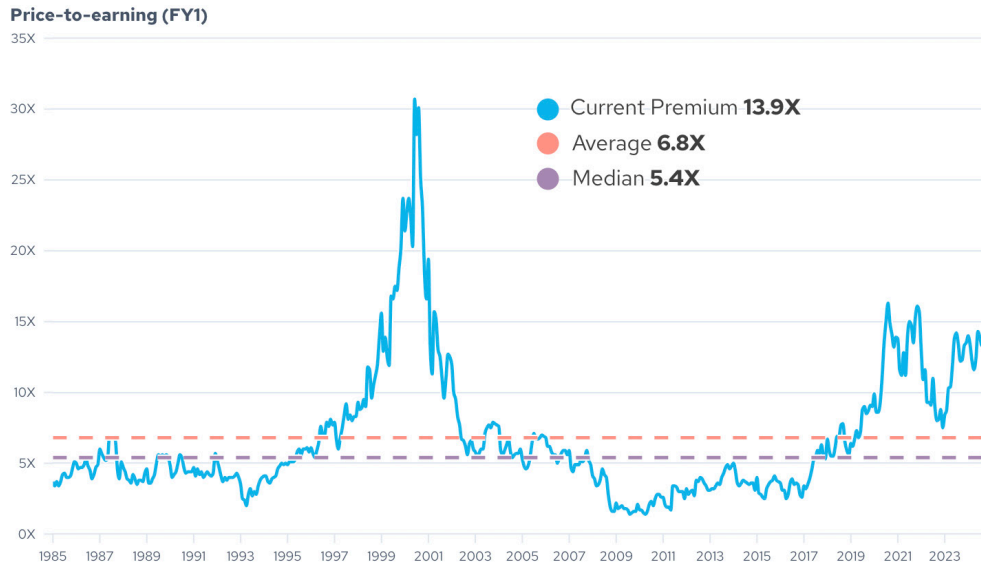
Premium for Growth at Multi-Decade High

Artisan Partners points to growth stocks rising disproportionately relative to their earnings growth since 2017, driving their valuations higher on both an absolute basis and relative to value stocks.

'We're ultimately stock pickers, but when we look at valuations between value and growth stocks at the index level, these spreads have re-extended to highly attractive levels,' said Craig Inman, a portfolio manager in its US value team.

Exhibit: Valuation Premium for Growth

P/E Spread (Russell 1000[®] Growth Index – Russell 1000[®] Value Index)



Source: Artisan Partners/FactSet/Russell. As of 31 Oct 2024. Price-to-earnings (FY1) ratio of the Russell 1000[®] Growth Index minus the price-to-earnings (FY1) ratio of the Russell 1000[®] Value Index. **Past performance does not guarantee and is not a reliable indicator of future results.**

With the Russell 1000 Growth index trading at nearly 32x next year's estimated earnings and the Russell 1000 Value at 18x, the valuation premium is almost 14 percentage points, as his chart above shows.

'Aside from the pandemic years, this is the largest since the tech bubble of the late 90s/early 2000s and significantly higher than the average and median of around 7 and 5 percentage points, respectively,' he said from Atlanta, Georgia.



Even though we're still seeing pockets of animal spirits with AI... we don't think this time is different

Craig Inman
Portfolio manager, US value team
Artisan Partners

The interest rate environment has also markedly changed. Gone are the days of rock-bottom interest rates and there being 'no penalty for aggressive investment strategies.'

'Even though we're still seeing pockets of animal spirits with AI and some of the momentum investing going on that is reminiscent of what happened in 2021 – and we saw how that ended in 2022 – we don't think this time is different,' said Inman.

'With interest rates higher today, there's a real cost of capital and a real hurdle in the market, and that tends to be a good environment for value investing.'

PSYCHOANALYSIS: MIND MATTERS

Take a seat on the psychologist's couch and step inside the minds of value investors – and those who create value opportunities.

One simple rule dictates Warren Buffett's approach to stock-picking: Be fearful when others are greedy and greedy when others are fearful. His investment philosophy is rooted in the principles laid out by his mentor, Benjamin Graham, who is considered the father of value investing.

The core idea is to invest in companies that are fundamentally strong but are trading for less than their true value. These companies often have a durable competitive advantage, solid financials, and competent management, but are temporarily out of favor and undervalued by the market.

Behavioral biases

To understand the mindset of a value investor, it is important to understand the behavioral biases that produce value investing opportunities in the first place.



Humans have a lot of characteristics that make us do less-than-desirable things. We're not totally rational. We're impatient. We're fearful

Dan Kane
Portfolio manager
Artisan Partners

Dan Kane, a portfolio manager on Artisan Partners' US value team, points to the human desire for comfort, which makes investors gravitate towards stock charts that paint a positive picture.

'Humans have a lot of characteristics that make us do less-than-desirable things,' he said. 'We're not totally rational. We're impatient. We're fearful. We're prone to overweight current events that we read about in the news. We're overconfident in our beliefs and our judgments.'

'Related to this is the idea of confirmation bias, that we're only seeking information that reinforces our existing beliefs about a company or an industry. Another bad habit is leaning on false precision, which is reinforced by our ability to operate spreadsheets. People make the mistake of thinking math can solve most of their issues.'

'Lastly, there's this idea of greed. I think that's pervasive in the stock market. It's at the intersection of these behaviors or bad habits of market participants where we find our margin of safety and can get involved in securities that have been beaten up.'

Rather than avoid bad news and uncertainty, value investors embrace it. 'Our experience has taught us that periods of turmoil, setbacks, disruptions, when fear is on the rise, are when bargains are created in the marketplace,' added Kane.

This article represents the of the Artisan Partners U.S. Value Team, portfolio managers for Artisan Value Equity, Artisan Value Income and Artisan U.S. Mid-Cap Value Strategies, and Citywire as of 6 December 2024 and those views and opinions presented are their own. The views and opinions expressed are based on current market conditions, which will fluctuate, and those views are subject to change without notice. While the information contained herein is believed to be reliable, there is no guarantee to the accuracy or completeness of any statement in the discussion. Artisan Partners is not affiliated with Citywire.

Investment Risks: International investments involve special risks, including currency fluctuation, lower liquidity, different accounting methods and economic and political systems, and higher transaction costs. These risks typically are greater in emerging and less developed markets, including frontier markets. Securities of small- and medium-sized companies tend to have a shorter history of operations, be more volatile and less liquid and may have underperformed securities of large companies during some periods. Value securities may underperform other asset types during a given period. Investments will rise and fall with market fluctuations and investor capital is at risk. Investors investing in strategies denominated in non-local currency should be aware of the risk of currency exchange fluctuations that may cause a loss of principal. These risks, among others, are further described in Artisan Partners' Form ADV, which is available upon request.

Russell 1000[®] Growth Index measures the performance of US large-cap companies with higher price/book ratios and forecasted growth values. Russell 1000[®] Value Index measures the performance of US large-cap companies with lower price/book ratios and forecasted growth values. The index(es) are unmanaged; include net reinvested dividends; do not reflect fees or expenses; and are not available for direct investment.

Frank Russell Company ("Russell") is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell[®] is a trademark of Frank Russell Company. Neither Russell nor its licensors accept any liability for any errors or omissions in the Russell Indexes and / or Russell ratings or underlying data and no party may rely on any Russell Indexes and / or Russell ratings and / or underlying data contained in this communication. No further distribution of Russell Data is permitted without Russell's express written consent. Russell does not promote, sponsor or endorse the content of this communication.

Earnings are earnings that are adjusted for the cyclical ups and downs over a business cycle. **Price-to-Earnings (P/E)** is a valuation ratio of a company's current share price compared to its per-share earnings. **Margin of Safety**, a concept developed by Benjamin Graham, is the difference between the market price and the estimated intrinsic value of a business. A large margin of safety may help guard against permanent capital loss and improve the probability of capital appreciation. Margin of safety does not prevent market loss—all investments contain risk and may lose value. **Animal Spirits** refer to the ways that human emotion can drive financial decision-making in uncertain environments and volatile times.

This material is provided for informational purposes without regard to your particular investment needs and shall not be construed as investment or tax advice on which you may rely for your investment decisions. Investors should consult their financial and tax adviser before making investments in order to determine the appropriateness of any investment product discussed herein.

Artisan Partners Limited Partnership (APLP) is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Artisan Partners UK LLP (APUK) is authorized and regulated by the Financial Conduct Authority and is a registered investment adviser with the SEC. APEL Financial Distribution Services Limited (AP Europe) is regulated by the Central Bank of Ireland. APLP, APUK and AP Europe are collectively, with their parent company and affiliates, referred to as Artisan Partners herein.

Artisan Partners is not registered, authorised or eligible for an exemption from registration in all jurisdictions. Therefore, services described herein may not be available in certain jurisdictions. This material does not constitute an offer or solicitation where such actions are not authorised or lawful, and in some cases may only be provided at the initiative of the prospect. Further limitations on the availability of products or services described herein may be imposed.

This material is only intended for investors which meet qualifications as institutional investors as defined in the applicable jurisdiction where this material is received, which includes only Professional Clients or Eligible Counterparties as defined by the Markets in Financial Instruments Directive (MiFID) where this material is issued by APUK or AP Europe. This material is not for use by retail investors and may not be reproduced or distributed without Artisan Partners' permission.

In the United Kingdom, issued by Artisan Partners UK LLP, 25 St. James's St., Floor 10, London SW1A 1HA, registered in England and Wales (LLP No. OC351201). Registered office: Phoenix House, Floor 4, Station Hill, Reading Berkshire RG1 1NB. In Ireland, issued by Artisan Partners Europe, Fitzwilliam Hall, Fitzwilliam Pl, Ste. 202, Dublin 2, D02 T292. Registered office: 70 Sir John Rogerson's Quay, Dublin 2, D02 R296 (Company No. 637966).

Australia: This material is directed at wholesale clients only and is not intended for, or to be relied upon by, private individuals or retail investors. Artisan Partners Australia Pty Ltd is a representative of APLP (ARBN 153 777 292) and APUK (ARBN 603 522 649). APLP and APUK are respectively regulated under US and UK laws which differ from Australian laws and are exempt from the requirement to hold an Australian financial services license under the Australian Corporations Act 2001 in respect to financial services provided in Australia.

Canada: This material is distributed in Canada by APLP and/or Artisan Partners Distributors LLC, which conduct activities in Canada under exemptions from the dealer, portfolio manager and investment manager registration requirements of applicable Canadian securities laws. This material does not constitute an offer of services in circumstances where such exemptions are not available. APLP advisory services are available only to investors that qualify as "permitted clients" under applicable Canadian securities laws.

©2024 Artisan Partners. All rights reserved

For institutional Investors Only – Not for Onward Distribution