

Market Maps

Factor Forensics Report

FTSE
Russell

November 2020

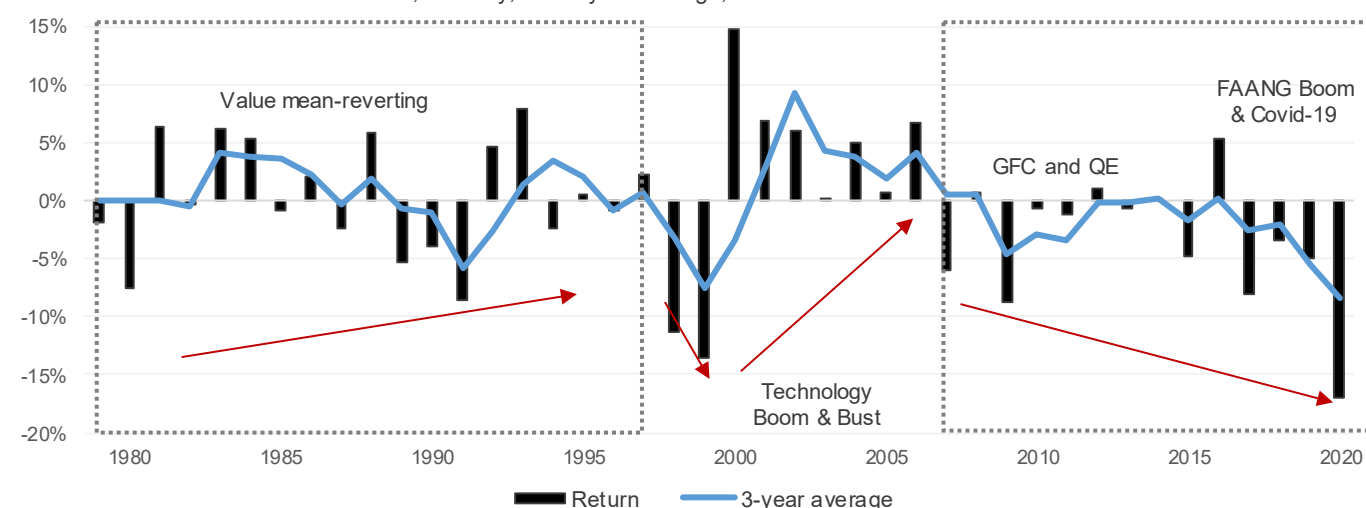
Is the long drought for Value coming to an end?

The Value factor has underperformed for the last 14 years, prompting some to even wonder if Value is dead. But, as our research shows, Value's behavior has varied starkly across markets and time. These differences offer clues to potential catalysts that could fuel a Value revival.

Value historical performance

As gauged by the Russell 1000 Value Index, Value significantly underperformed during the 1990's dot-com boom, then entered a multiyear rally after that bubble collapsed. Since 2006, Value's abysmal performance has caused considerable pessimism about its efficacy. Many have tied this weakness to the phenomenal outperformance of large-cap US technology stocks. But Value's story is more complex. Can we find common patterns across Value globally?

Russell 1000 Value Index excess return, annually, with 3-year average, USD



What drove the underperformance of Value?

Regional and period effects. The impact of GFC, QE, tech and Covid-19 (page 2)

Industry allocation effects. Is it just a technology story? (page 3)

Stock selection effects. Is Value dead within industries? (page 4)

Consistently bad performance. Is Value's performance consistent across the Value spectrum? (page 5)

Unintended factor exposures. How have off-target exposures affected Value's payoff? (page 6)

Is the long drought for Value coming to an end?

November's U-turn. Positive vaccine news was a shot in the arm for Value stocks. (page 7)

What catalysts could drive a more sustained value outperformance? (page 8)

For professional investors only

Source: FTSE Russell. All data as of November 30, 2020. Past performance is no guarantee of future results. This report should not be considered 'research' for the purposes of MIFID II. Please see the end for important legal disclosures.

Drivers of Value underperformance - Regional and period effects

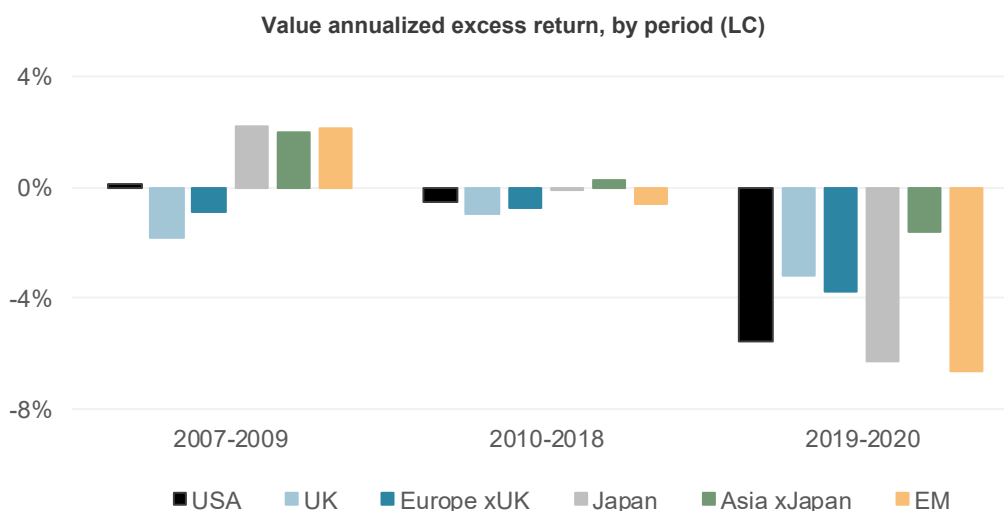
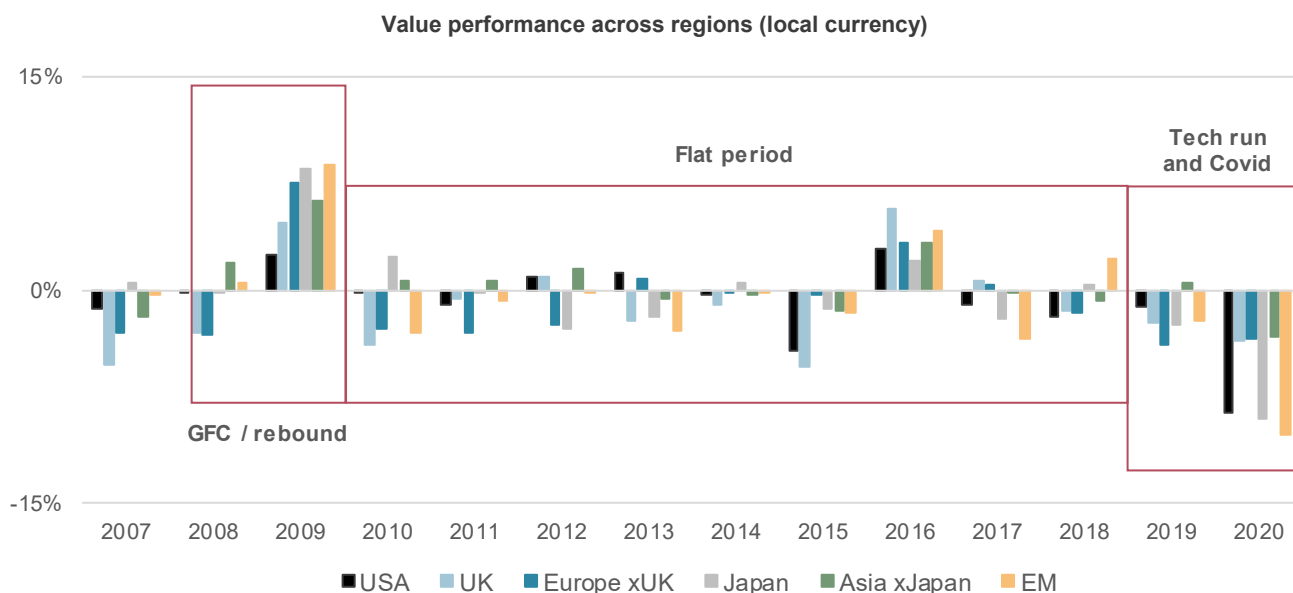
The time-series graph (top chart) below shows the 14-year history of Value performance broken up into three distinct phases, with shocks at the beginning and end.

2007-2009: Period around the Global Financial Crisis, covering the crash and the rebound in response to QE.

- Regional performances from drawdown to recovery varied considerably. For example, the sell-off and rebound in the US essentially offset each other, while movements elsewhere were more extreme.

2010-2018: Period of flat performance, covering QE and an attempt to find the “new normal” since 2014.

- Performance was not identical but uniformly uneventful.
- The exception is the Value rally in 2016, fuelled by the anticipation of promised US tax cuts and an infrastructure programme that would quicken US growth following Trump’s election.
- 2019-2020: The acceleration of the concentrated performance of popular tech stocks hit cyclical Value stocks badly as the Covid-19 crisis unfolded.



Source: FTSE Russell. All data as of November 30, 2020. Results shown for regional Factor Indicators represent hypothetical, historical performance, at Tilt 1, based on FTSE Global Equity Index Series data. Past performance is no guarantee of future results. Please see the Appendices I and II and end for important disclosures and information on factor calculations. For professional investors only.

Important information: While the Factor Indicators use the same calculation methodology as the official FTSE Russell Factor Indexes, they differ in terms of the implementation calculation. Consequently, the Factor Indicator and official FTSE Russell factor index data may differ. Please see the FTSE Russell website for information about the official factor indexes and the Appendix of this report for further details on rules-based factors indicator calculations and construction methodology.