Barrow Hanley: Tailwinds emerge for active global equities value investors

By Perpetual Asset Management
24 July 2024

The growing market dominance of US big tech is opening new opportunities for value investors, argues Barrow Hanley portfolio manager Brad Kinkelaar

- Market concentration at decade highs
- Value looks set to outperform
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AN inevitable unwinding of market concentration in US megacap tech stocks should create new opportunities for value investors over the coming year, argues Barrow Hanley's Brad Kinkelaar.

Market concentration has reached its highest point in decades, fuelled by investors' appetite for the big tech leaders that are forecasted to drive much of the market's growth over the coming year.

However, the rising concentration is not solely a characteristic of growth stocks: value stocks are also experiencing significant concentration, with only three sectors – information technology, financials, and energy – outpacing the MSCI World Value Index's 13.9 per cent performance up to June 30.

"We believe that a broadening of the market away from momentum investing will bode well for active managers as a whole," says Kinkelaar, a senior managing director and equity portfolio manager at US-based value manager Barrow Hanley.

"But more importantly, we believe that in such an environment, there will be more tailwinds for active value managers."

Barrow Hanley is a global leader in value investing, managing assets for clients for more than 40 years.

Barrow Hanley funds are distributed in Australia by Perpetual Group.

Value looks set to outperform

Despite the tech megacaps' domination of top-level index returns and estimates, active managers still possess considerable potential to significantly impact portfolio returns, Kinkelaar argues.

This can be achieved through a strategic combination of avoiding underperforming businesses and favouring those that are best positioned for future success, he says.

Preliminary performance returns from researcher eVestment show a significant majority of global value managers (roughly 67 per cent) underperformed the MSCI World Value Index over the last one and three-year periods.

However, over the five and 10-year periods, only around 30 per cent and 38 per cent of global value managers failed to outpace the index.

"In other words, over the long term, the average active value manager has very strong odds of outpacing its style index," he says.

Headwinds for growth managers

While value managers look set to outperform, this is not the case for active growth managers, where concentration in the market is much more challenging.

Kinkelaar notes that over one, three, five, and ten-year periods, the MSCI World Growth Index has ranked in the upper quartile – and even decile in some cases – of the eVestment Global Growth universe.

“That means 75 to 90 per cent of active global growth managers have failed to keep pace with their style benchmark over this time period.”

Valuation spreads widen

An increasing valuation disparity between growth and value stocks presents an opportunity for investors, Kinkelaar says.

“Valuation spreads remain elevated relative to historical levels. We believe as investors look for good companies that are undervalued, these will be the stocks of choice.

“Further, if we enter a period of multiple compression due to softening economies as a result of persistent inflation and wage pressure, value stocks trading on depressed multiples are likely to fare better.

“As investors, we recognise the importance of having a well-diversified portfolio and appreciate asset allocators want to do the same.

Thus, we believe having a strong active value strategy plays an important role, through the cycle, in order to generate excess returns.”

About Barrow Hanley

Barrow Hanley is a global leader in value investing, managing assets for clients for more than 40 years.

Barrow Hanley Global Share Fund aims to provide investors with long-term capital growth through investment in quality global shares.

Rated "Highly Recommended" by Zenith, "Recommended" by Lonsec and with a Morningstar Medallist rating of "Gold", the investment team focuses on finding value in all the right places.

Find out more here.

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