

LEADERS OR LAGGARDS?

PROSPECTS FOR RECENT OUTPERFORMERS

July 21, 2021

Out of favor for years, a few select investment strategies find themselves once again on the buy list. But soft recent performance has investors asking if the party is already over. We review the prospects for three of these market laggards-turned-leaders.

Natural resources may provide the best near-term/longer-term one-two punch. Near term, the reopening trade (which we expect to continue as Delta variant fears subside) continues to support an industry with tight supply/demand dynamics. Once characterized by excess capacity, the commodity complex has seen notable underinvestment the past few years. This is financially attractive to investors willing to provide financing. Investors came for the tactical reopening play; they will stay for the role natural resources will play in the green transition (moving to a “clean” world still requires “dirty” ingredients).

Global real estate (GRE) was slow to take part in the market recovery, but has been the best performing major asset class year-to-date. Part of it was cheap valuations (with some properties valued at a fraction of their book value at pandemic lows). Another part of it is a reopening trade that has been stronger — and perhaps more durable — than expected, leaving more properties with paths to continued economic relevance. The asset class may take a breath after its recent surge; but, longerterm, we expect this low-interest-rate beneficiary will prove its (still) important role in global economic functioning.

Value strategies. We leave the factor-based analysis to our quantitative research team, but we offer a couple of data points that support the investment case for value strategies. Value stock earnings growth expectations are keeping pace with that of growth stocks fairly well (2021: 48% vs. 24%; 2022: 9% vs. 14%). At the same time, value stocks trade at a 46% discount to growth stocks — an all-time historically large discount.

Northern Trust Global Asset Allocation

Dan Phillips, CFA
Director, Asset Allocation Strategy
dp61@ntrs.com

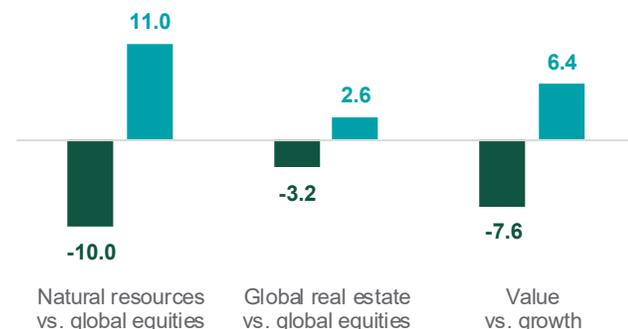
Colin Cheesman, CFA
Investment Analyst
cc327@ntrs.com

EXHIBIT 1: WHAT GOES DOWN, COMES UP?

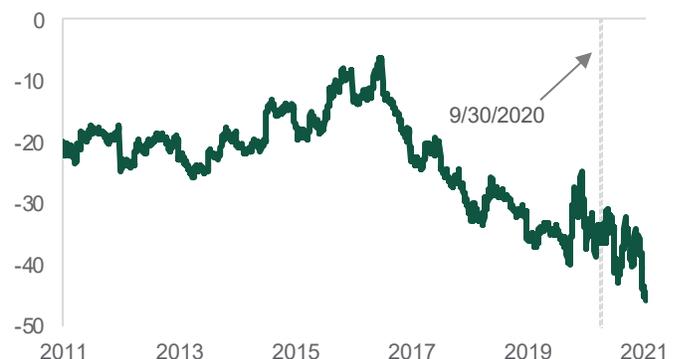
Yes for market laggard returns over the past ten months; possibly for falling value stock valuations.

RELATIVE RETURNS (%)

■ June 2011 through Sep 2020 (annualized) ■ Next ten-month*



VALUE DISCOUNT (% OF GROWTH)



Source: Northern Trust Asset Management, Bloomberg. *Next ten-month through 7/19/2021. Indices used: MSCI ACWI, S&P Global Natural Resources; MSCI Global Real Estate; Russell 1000 Value/Growth. Value discount: value price to forward earnings (P/FE) as % of growth P/FE.

© 2021 Northern Trust Corporation. Head Office: 50 South La Salle Street, Chicago, Illinois 60603 U.S.A.

IMPORTANT INFORMATION. For Asia-Pacific markets, this information is directed to institutional, professional and wholesale clients or investors only and should not be relied upon by retail clients or investors. The information is not intended for distribution or use by any person in any jurisdiction where such distribution would be contrary to local law or regulation. Northern Trust and its affiliates may have positions in and may affect transactions in the markets, contracts and related investments different than described in this information. This information is obtained from sources believed to be reliable, and its accuracy and completeness are not guaranteed. Information does not constitute a recommendation of any investment strategy, is not intended as investment advice and does not take into account all the circumstances of each investor. Opinions and forecasts discussed are those of the author, do not necessarily reflect the views of Northern Trust and are subject to change without notice.

This report is provided for informational purposes only and is not intended to be, and should not be construed as, an offer, solicitation or recommendation with respect to any transaction and should not be treated as legal advice, investment advice or tax advice. Recipients should not rely upon this information as a substitute for obtaining specific legal or tax advice from their own professional legal or tax advisors. Information is subject to change based on market or other conditions.

Forward-looking statements and assumptions are Northern Trust's current estimates or expectations of future events or future results based upon proprietary research and should not be construed as an estimate or promise of results that a portfolio may achieve. Actual results could differ materially from the results indicated by this information.

Northern Trust Asset Management is composed of Northern Trust Investments, Inc. Northern Trust Global Investments Limited, Northern Trust Fund Managers (Ireland) Limited, Northern Trust Global Investments Japan, K.K, NT Global Advisors Inc., 50 South Capital Advisors, LLC, Belvedere Advisors LLC and investment personnel of The Northern Trust Company of Hong Kong Limited and The Northern Trust Company. For Use with Institutional Investors/Financial Professionals Only. Not For Retail Use.