

# 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

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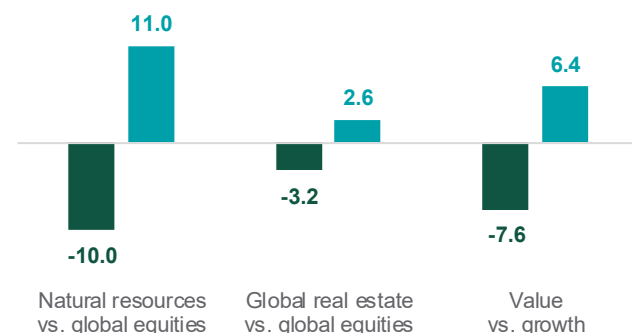
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#### EXHIBIT 1: WHAT GOES DOWN, COMES UP?

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.

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