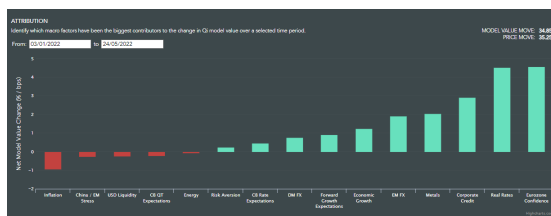


07.07.2022

Proof! What Value needs to outperform Growth

- Not another piece of commentary opining on markets. Empirical proof of what's driving Value versus Growth.
- Attribution analysis defines what moves Qi macro-warranted fair value. In the case of US Value vs. Growth (using Vanguard ETFs [VTV vs. VUG](#)), Qi model value rose 34.9% from the start of the year to the May 24th high watermark for Value outperformance. Spot VTV / VUG rallied 35.3% in that time. The market moved exactly as macro conditions dictated it should!
- That simple statistic demonstrates **the importance of the macro environment** for equity managers, even when they think they are **allocating on a style basis**. The chart below shows the breakdown of the VTV / VUG model move over that period.



- Part of it was the notion of a **cyclical bounce**. Stronger economic growth & forward growth expectations plus higher commodities between them account for part of the rise in model value.
- But **financial conditions** & measures of market stress were vastly more significant. Higher real rates & wider credit spreads were responsible for nearly twice as much in terms of Growth's underperformance.
- Probably less well known is the role played by European government bond markets. The widening in peripheral spreads as markets fretted about the ECB's hawkish pivot was the biggest single driver of Value's outperformance.
- Qi model confidence is currently 73% - **macro retains strong explanatory power**. Equity managers choosing their tilt for H2 2022 need to be aware of the macro environment & how that determines the Value vs Growth asset allocation.

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