When Doubt Reigns, Value Wins

By Paul Ehrlichman

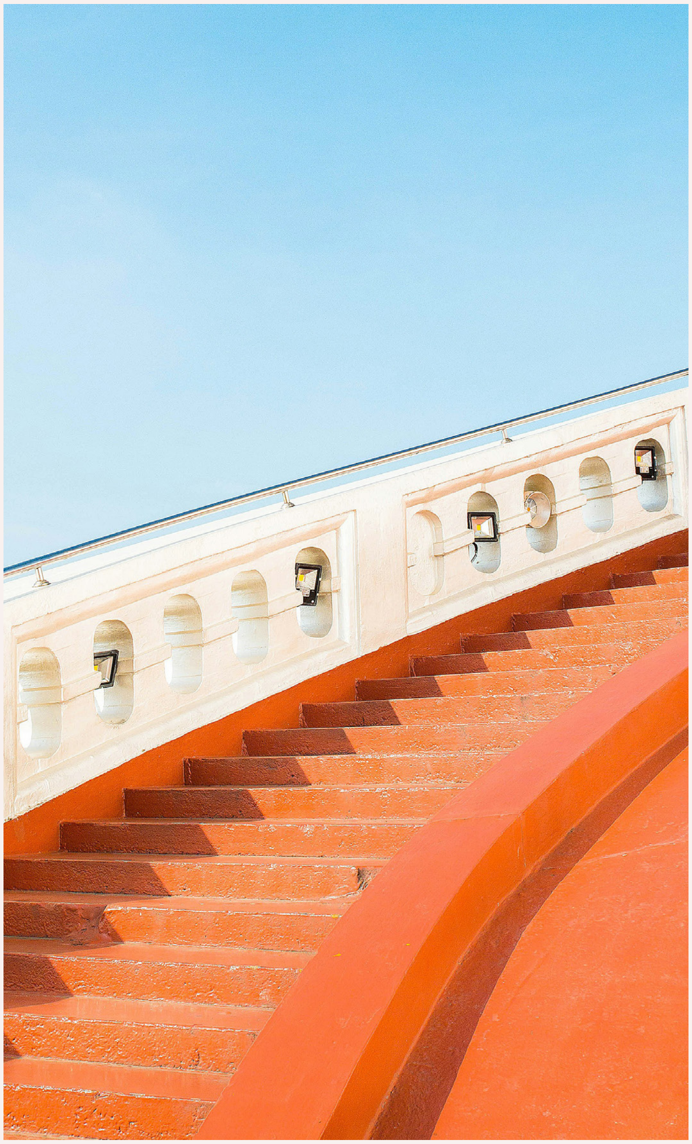
FLEXTION It's about *time*.

Back in 1990, I conducted a qualitative "backtest" to identify patterns that preceded strong periods for value stocks. The signals were clear: headlines were dominated by fears of a recession, global crises, credit crunches, monetary policy uncertainty, rising bankruptcies, and a narrow group of growth stocks outperforming everything else.

The conclusion was simple—the best time to invest in value strategies is when Fear, Uncertainty, and Doubt (FUD) are at their peak.

This dynamic was recently reinforced by Ben Inker at GMO in his 2023 paper, *Value Does Just Fine in Recessions.* His research showed that value stocks outperformed during every recession since 1969—with the sole exception of the unique COVID downturn.

It makes sense. The primary driver of stock performance is not just earnings, but the relationship between actual earnings and expectations. Value stocks, which tend to have low implied growth forecasts, are naturally insulated during periods of broad earnings cuts. While cyclicals and financials often dominate value portfolios, exposure to defensive sectors like utilities, staples, and healthcare provides additional stability. As policy makers intervene and markets begin to anticipate recovery, the low bar set for value stocks creates room for positive surprises.



Today, the setup is remarkably similar.

The valuation gap between growth and value stocks in the U.S. is near historic highs. Being priced for pessimism—as value stocks are—is already paying off: in Q1 2025, the S&P 500 Growth Index fell 8.5%, while the S&P 500 Value Index rose 0.3%. Internationally, where mega-cap tech is less dominant, value stocks have outperformed growth by an annualized 600 basis points over the past five years.

Despite the drag of trade wars, rising public debt, global conflicts, and chaotic policy signals, value stocks are positioned to benefit most from any positive developments. A combination of trade agreements, lower tariffs, coordinated stimulus, and expansionary monetary policies could ignite a significant re-rating of value assets—without the risks currently embedded in growth valuations.

In short, value strategies thrive in uncertain environments and are asymmetrically positioned to benefit whether conditions deteriorate or improve.

At Flextion, our selection methodology identifies the most compelling value strategies for today's market environment. Explore our latest recommendations at Flextion.ai.

Recommended Buys:

- Neuberger Berman Intrinsic Value
- JNL/T. Rowe Price Large Cap Value
- SA US Value
- Gabelli Value 25
- Monteagle Select Value
- Tweedy Brown Value
- MFS New Discovery Value
- Columbia Multi-Manager Value Strategies
- Commerce Funds: Value Fund
- Ultra Series Fund: Large Cap Value

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About the Author

Paul Ehrlichman, Flextion's CEO and CIO, has over four decades of experience in portfolio management, leveraging fundamental and quantitative research to develop investment processes and strategies that enhance client returns and manage risks in volatile markets. He has led equity teams focused on global and international value strategies, serving a diverse client base that includes individuals, pension funds, and endowments at several leading global asset managers.

Flextion is a breakthrough platform for evaluating fund strategy returns, helping investors identify managers at a pivotal turning point—those poised to outperform after a period of underperformance. Designed by seasoned portfolio managers, Flextion bridges the gap between "clock time" and "market time," empowering investors to unlock long-term value and uncover hidden performance potential.

For more information contact:

Paul Ehrlichman, CEO and CIO ▸ **paul@flextion.com**
Bevin Crodian, President and COO ▸ **bevin@flextion.com**