BNY MELLON

# The Return of Value

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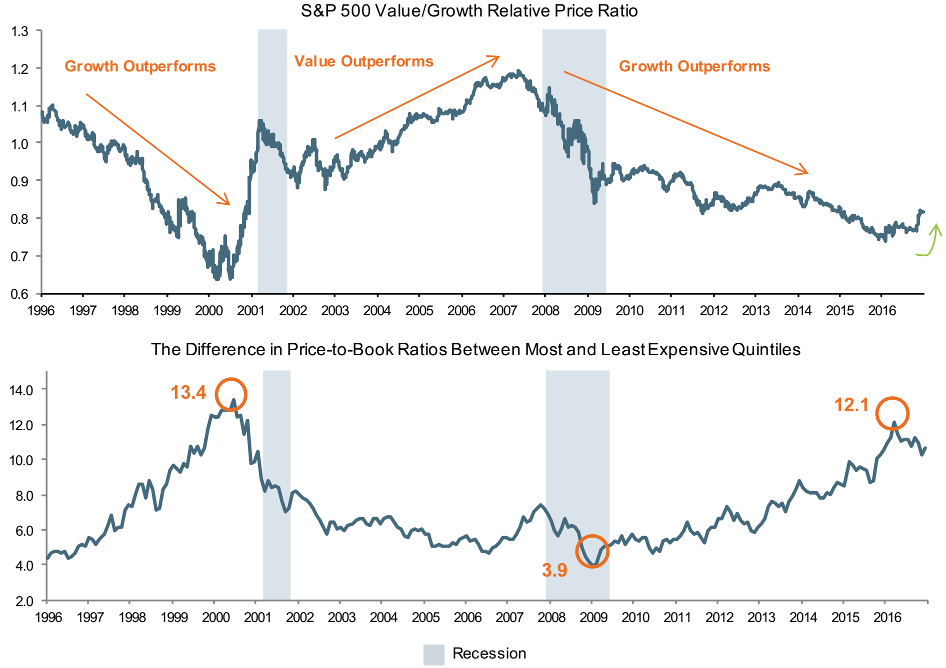
Value stocks are at the most attractive levels we've seen in over a decade, and we believe now is an opportune time to embrace value. Investors are familiar with the long cyclical rotation of growth and value outperformance, illustrated in the top chart. To help identify turning points, we plotted the difference in price-to-book ratios between the most expensive and least expensive quintiles in the market, displayed in the lower chart. Historically, these two charts appear inversely correlated.

### Value Stocks Are at Attractive Levels




Sources: FactSet (Top Chart), S&P Global Market Intelligence's ClariFI (Bottom Chart), National Bureau of Economic Research, Inc. (Recession Periods). As of 12/31/2016. Note: Value and Growth are represented by S&P 500 Value Index and S&P 500 Growth Index (Top Chart). Q1 Median P/B - Q5 Median P/B (Botttom Chart). Recession data (Top and Bottom Chart) from the National Bureau of Economic Research.

Charts are provided for illustrative purposes only and are not indicative of the past or future performance of any **Dreyfus** product. Outperformance does not necessarily mean positive performance.

During the dot-com era, growth stocks outperformed, and the gap between price-to-book ratios peaked at historic highs of 13.4 in June 2000. After the tech bubble burst, investors fled to value stocks. But by the bottom of the Great Recession in March 2009, valuations across the market were compressed, with the difference between the most and least expensive stocks about 3.9, making growth stocks attractive relative to value. Amid stagnation, investors sought stocks with secular growth stories, such as Amazon, Google and Facebook. Importantly, after seven years of secular stagnation, the valuation gap approached tech-bubble levels and peaked at a price-to-book difference of 12.1 in March 2016.

We believe this outsize dispersion sets the stage for the next rotation back to value stocks. In fact, 2016 was the first year since early 2010 when value outperformed growth. Even in traditional value sectors, dispersion is wide. Investors have bid up prices in bond-proxy sectors, like Utilities, while avoiding sectors maligned during the Great Recession, like Financials. For example, in July 2016, we were able to buy Financials with higher dividend yields and significantly better expected three-year dividend growth rates at meaningful price-to-earnings and price-to-book discounts relative to Utilities. Outside of the bond-proxy sectors, we are finding attractive opportunities that we believe offer healthy dividends, compelling valuations and business improvement catalysts.

Additionally, we expect to see acceleration in earnings growth given President Trump's emphasis on infrastructure spending, tax reform and deregulation, which could result in GDP growth above 3%, accelerating from the current 2% level. We believe this pro-growth, pro-business regime should benefit value stocks, including the biggest weight in the Russell 1000 Value Index—Financials. When considering current valuations and the constructive environment, we believe value could meaningfully outperform growth over the next several years.



Russell 1000 Value Index is a market capitalization-weighted index, meaning that the largest companies constitute the largest percentages in the index and will affect performance more than the smallest index members. The S&P 500 Growth Index is a market-capitalization-weighted index developed by Standard and Poor's consisting of those stocks within the S&P 500 Index that exhibit strong growth characteristics. The S&P 500 Value Index is a market-capitalization-weighted index developed by Standard and Poor's consisting of those stocks within the S&P 500 Index that exhibit strong value characteristics. An investor cannot invest directly in any index. Price-to-book value (P/B) is the ratio of market price of a company's shares (share price) over its book value of equity. The book value of equity, in turn, is the value of a company's assets expressed on the balance sheet.

The price-earnings ratio (P/E Ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings. The price-to-book ratio (P/B Ratio) is a ratio used to compare a stock's market value to its book value.



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