

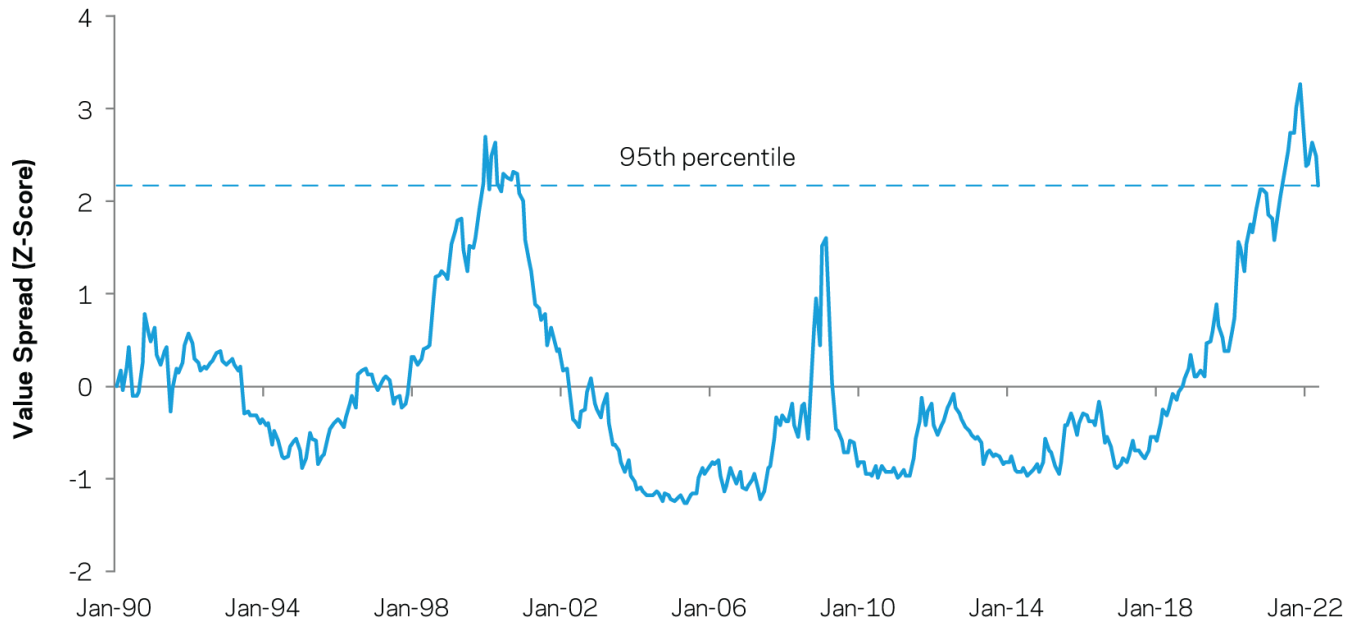


Cliff's Perspective

Still Crazy After All This YTD^{1,2}

May 9, 2022

Global Value Spreads
Hypothetical Industry-and-Dollar-Neutral All-Country Value Portfolio³⁴⁵



¹A hat tip to Paul Simon:
<https://www.youtube.com/watch?v=yVK3tTBjze4>

² This adds another three months of data to our [February blog](#), which itself was an update to our [December blog](#). Other than this footnote, the rest of the footnotes are carried over from the prior blog. Over these additional three months, value's returns, as we measure them, have continued apace. Since February, the value spread has fallen slightly, though it remains near its tech bubble peak, at around the 95th percentile. Reminder — a massive valuation dislocation says very little about the timing of when it falls back to earth. But it's nice to see it start and still leave the spread incredibly high.

³ Spreads are constructed using a hypothetical value composite that includes five value measures: book-to-price, earnings-to-price, forecast earnings-to-price, sales-to-enterprise value, and cash flow-to-enterprise value. Spreads are measured based on ratios and are adjusted to be dollar-neutral, but not necessarily beta-neutral through time. To construct industry-neutrality, the value spreads are constructed by comparing the value measures within each industry. The all-country universe is based on roughly 90% developed / 10% emerging weights, derived based on proprietary ex-ante risk targets as of 4/30/2022. The developed data starts January 1990, while the emerging universe is included starting December 1994. The risk models used are the Barra Developed Equity Risk Model and Barra Emerging Equity Risk Model. Hypothetical data has inherent limitations, some of which are listed in the Disclosures. For illustrative purposes only and not representative of an actual portfolio AQR currently manages. Please read the Disclosures for important information.

⁴ Over the last few years, we've calculated the value spread various ways in these blogs. Sometimes just in the USA. Sometimes using only one measure like P/B when we want to go really far back in time. Other variants may differ somewhat. Other variants may differ somewhat.

⁵ Despite extraordinary performance of the value style in 2022 thus far (on the back of an already good 2021), the value spread has remained wide. Some explanations for this may include turnover (rotating from old value stocks to new value stocks, with the same on the growth side) and improving relative fundamentals between value and growth stocks.

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