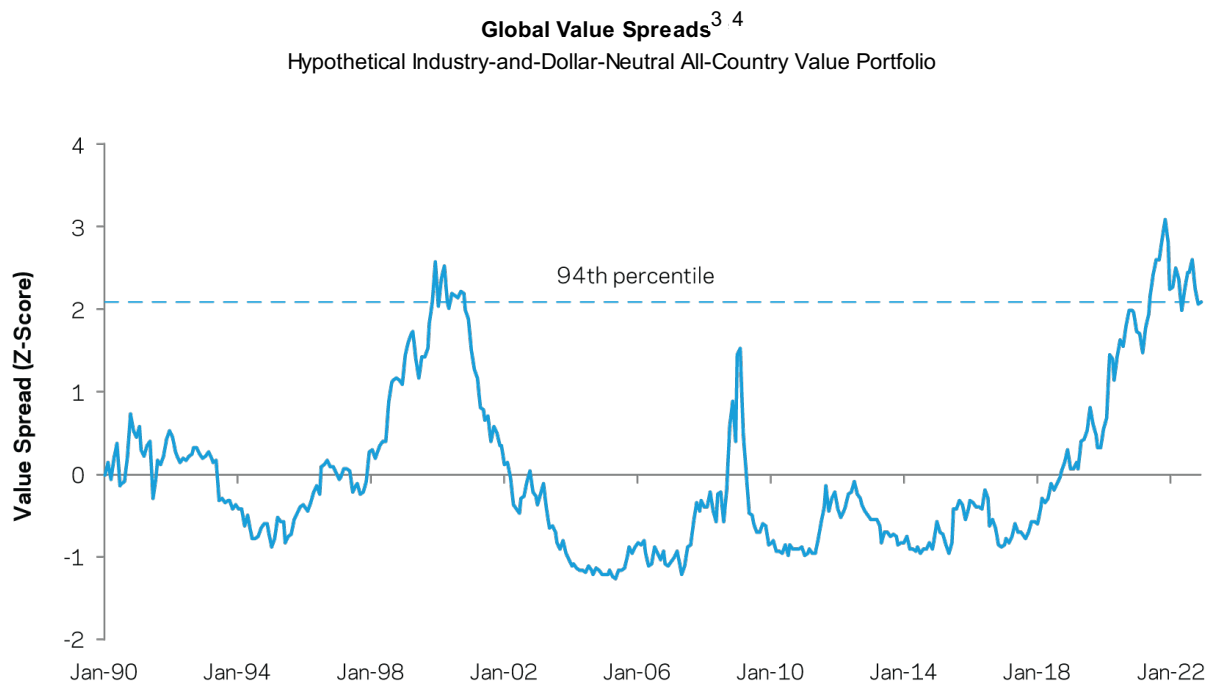


## P E R S P E C T I V E

### The Bubble Has Not Popped<sup>1, 2</sup>

January 4, 2023



Source: AQR. January 1, 1990 – December 31, 2022.

[1] I'm recycling this title from 2001 ([The Bubble Has Not Popped](#)). The more things change, the more...

[2] This post updates the value spread chronicled in our [series of posts](#) dating [back to December 2021](#) with data through 12/31/2022. The fourth quarter of 2022 saw value recover from the bout of [temporary insanity](#) that gripped some portion of the market over the summer, but the spread ends 2022 very much still in rarified territory – at the 94th percentile, to be precise. More excitingly for 2023, value's returns in 2022 were extremely strong, and the spread only moved from roughly the 100th percentile to the 94th. I will say again that a massive valuation dislocation says very little about the timing of when it truly falls back to earth, but we're very optimistic about the prospects of continued normalization in 2023 and beyond. Like in 2022, there's sure to be nasty reversals along the way, but as Wile E. Coyote always finds out, gravity is inescapable.

[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 87% developed / 13% emerging weights. The developed data starts January 1990, while the emerging universe is included starting December 1994. 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.

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