

Market Musings 11/25

For Professional Investors only

Value investing is back but not where you think

A shift in the story

In a market still dominated by AI narratives and growth momentum, value investing is quietly making a comeback. But the real story isn't just about style rotation, it's about geography. In recent quarters, many value stock investors have outperformed their benchmarks. This indicates a shift in global market dynamics and could signal a change in market leadership.

For years, global value strategies lagged the broader global equity market. While absolute performance was solid, value stocks did not keep up with the dominance of large US technology stocks in the MSCI World Index. That picture is beginning to change. In the past six months, value-oriented funds have outperformed their value benchmarks, underlining the importance of active stock selection and regional diversification.

Why geography matters

The resurgence of value investing in 2025 has been most visible outside the United States, where valuations are more grounded and expectations more realistic. While US markets remain dominated by expensive tech stocks, investors are increasingly recognising the opportunity in regions where fundamentals matter more than momentum. European and emerging market value indices have outpaced North America this year, highlighting the opportunity for investors willing to look beyond the US. Europe and emerging markets, in particular, have shown that disciplined stock selection in reasonably valued sectors can deliver compelling results.

This shift reinforces the case for regional diversification and a valuation-aware approach to portfolio construction.

Valuation gaps are driving the change

A volatile macroeconomic environment in combination with global political turmoil makes active management and careful stock selection increasingly important. While large technology companies have led the broader market over the last three years, value investors are finding opportunities in other regions and sectors that are more compelling.

The gap in valuations between the US and the rest of the world is striking. Almost every sector in the US is trading at the top end of its historical valuation range, making US equities expensive across the board compared to other regions. In contrast, most sectors in Europe and elsewhere are valued much closer to their long-term averages. This disparity means that value investors willing to look beyond the US are finding more attractive opportunities at more reasonable prices.

Sector dynamics matter too

Not all sectors are moving in the same direction. Financials have been a key driver of value performance this year, supported by stronger balance sheets and improved earnings visibility. Industrials, which often benefit from infrastructure spending, have also contributed in some regions. Meanwhile, defensive sectors such as utilities and consumer staples have lagged, reflecting their sensitivity to interest rate changes.

What we are seeing is not just a rotation between styles, but a re-evaluation of where value lives.

What this means for the future

Leadership in markets does not stay in one place forever. After a long period where growth dominated, conditions now look more supportive for value. A low bar for value and a very high bar for growth suggest that price and fundamentals will start to matter again.

For investors willing to take a broader view, the next phase of market leadership may not come from the same places as before. Regions and sectors where valuations reflect reality rather than hype are likely to set the tone. These are the conditions that have historically supported value investing, and they could define the next chapter for global markets.

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