Forget Growth Stocks! Canadian Value Stocks Are Key to Outperforming in 2021

Description

Canadian value stocks are finally getting a chance to shine after more than a year of fading into the shadows of growth stocks. With the 10-year U.S. Treasury note yield continuing its climb, it's becoming likelier that the theme of rotating into value will remain dominant throughout the year. As you're probably now aware, higher bond yields make future corporate profits worth less. As a whole, higher bond yields are bad news for stocks.

They're not great for value stocks, but they're truly terrible for growth stocks. And for early-stage speculative growth stocks that have yet to make a profit? They're disastrous. That's why we've witnessed such a gap in performance over the past few months. The value-heavy **TSX Index** and Dow Jones Industrial Average have put the tech-heavy Nasdaq 100 to absolute shame. The Nasdaq 100 plunged into a correction, and the TSX Index barely felt the shockwaves.

Growth stocks under pressure

The Nasdaq 100's tumble does not tell the full story, however. Not only is growth and tech under considerable pressure, but the "growthier" or "sexier" winners of 2020 are now looking like the biggest losers of 2021. **Facedrive** stock, a dangerously expensive speculative tech stock, imploded like a paper bag, crumbling from its $60 February peak to $23, where the stock sits today. That's a 62% drop in under two months. As bond yields continue their ascent, there are reasons to believe that the stock could be in for even more pain.

Even well-established growth stocks like **Shopify** couldn't dodge and weave through the punches swung by Mr. Market. Shopify now finds itself down 30%. Whether this is curtains for the small- and medium-sized e-commerce kingpin remains to be seen, but higher bond yields do not bode well for the firm while its pandemic tailwinds begin to fade into the latter part of 2021.

Manulife: A value stock that's the new momentum trade!

Meanwhile, value plays like **Manulife Financial** (TSX:MFC)(NYSE:MFC) have been absolutely soaring. They're the new momentum stocks, and they're still absurdly cheap. Manulife stock is up over 98% from its March bottom, and it has not looked back. As value continues to shine at the expense of growth, I suspect Manulife stock's incredible bull run could continue into year's end.

Not only is Manulife a beneficiary of the profound growth-to-value rotation, but the environment is now looking pretty favourable. First, there's the economic recovery that'll fuel a boom, the likes of which we may not have seen in decades. For an insurance provider like Manulife, the long-term outlook couldn't be more attractive. Sure, insurance is marketed as a need, but let's face it, many of us view it as a want. And it tends to be near the top of things to slash off the budget when times are tough. With the "Roaring 2020s" underway, things will get better, and that bodes really well for Manulife.

Second, an overheated economy could pave the way for faster and more furious interest rate hikes. That's a dream environment for Canadian financials like Manulife. While the Fed could make good on its promise by keeping rates lower for longer, I ultimately believe that market forces will pressure the Fed to remain agile and react with the best of intentions, even if it means breaking a promise to investors.

Foolish takeaway

Growth stocks had their time to shine. It's value's turn now.

If we are due for rising rates, Manulife is a name that could explode higher over the next five years. And you're going to want the value stock at your TFSA portfolio's core if you're a long-term thinker who's looking for market-beating growth.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:MFC (Manulife Financial Corporation)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Investing

Date
2025/08/29

Date Created
2021/03/30
Author
joefrenette