Why Value Will Beat Growth in 2022

Description

2022 is shaping up the be the year of value stocks. Year-to-date, bank stocks and energy producers have soared, while tech stocks have absolutely languished. For the year, the NASDAQ is down 8.3%, while the TSX Energy index is up 13%. This divergence has really been something to see. And what's more, it could continue for the remainder of the year. Both the U.S. Federal Reserve and the Bank of Canada are raising interest rates this year–in the former's case, potentially six or seven times! In such an environment, the present values of technology stocks are severely reduced. Value stocks are much less affected. In this article I will argue that value stocks are quite likely to beat growth stocks for at least the first half of 2022.

Interest rates rising

The most obvious reason why value stocks will beat growth stocks is because interest rates are rising. In a discounted cash flow model, the present value of earnings is reduced more by higher interest rates the higher the growth is. The more the growth, the more a rate hike reduces the present value (in percentage terms). This is bad for growth stocks because their expected growth is high.

It's just the opposite for bank stocks like **The Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). Not only are their growth expectations lower, but banks can actually make more money when interest rates rise. When central banks raise interest rates, both deposit interest and loan interest go up. However, loan interest tends to go up more than deposit interest does, so banks like TD often see higher profit margins in times of rising interest rates.

Bullishness in energy

A second factor that could help value stocks beat growth stocks in 2022 is bullishness in energy. Right now, oil prices are on the rise. On Tuesday, the WTI crude oil benchmark price hit its highest level since 2014, in the middle of a huge COVID outbreak no less! When the Omicron wave ends, there is no telling where oil prices could go.

This is a huge boon to energy producers like **Suncor Energy Inc** (TSX:SU)(NYSE:SU). Such companies make more money the higher the price of oil goes. In its most recent quarter, Suncor had $2.6 billion in adjusted funds from operations and $877 million in net income. That was all due to the strong oil prices observed in the third quarter. In the same quarter of 2020, when oil prices were low, Suncor had negative net income and only $1.1 billion in adjusted funds from operations. So, bullishness in oil is helping Suncor. And it will probably continue to do so for at least the first half of the year.

Pandemic tailwinds set to fade

Last but not least we have the fact that the pandemic tailwinds that helped tech stocks so much in 2020 are set to fade. In 2020, companies like **Shopify** made piles of money as retail closures led to a surge in online shopping. Today, that may still be continuing to an extent thanks to Omicron, but vaccination rates are rising. Public health experts are increasingly speaking of “endemic COVID” and the “new normal,” which may signal the end of the public health measures that helped tech companies so much during the worst days of the pandemic. That’s bad for tech, but great for value, as it is bricks-and-mortar businesses that stand to benefit the most from a re-opening.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:SU (Suncor Energy Inc.)
4. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

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

PP NOTIFY USER

1. andrewbutton
2. jguest

Category

1. Investing
2. Stocks for Beginners

Date
2025/08/02
Date Created
2022/01/19
Author
andrewbutton