# 3 Reasons Value Investors Will Win in 2022

## Description

Value investors are taking an early lead in 2022. The year is starting off with significant volatility in tech stocks, which have fallen by double-digits from their level at the start of the year. At the lows, the **NASDAQ** was down 11% for the year, and nearly 20% from its November 19 high. Since then, tech stocks have regained some of their momentum, but they remain vulnerable to several macroeconomic developments, like higher interest rates. For this reason, I believe that value investors–including value-oriented tech investors–are likely to “win” in 2022.



## U.S. interest rates are set to rise

One of the big advantages that value investors have in 2022 is the fact that interest rates are set to rise. There are some value stocks, like utilities, that get hit hard by higher interest rates, but for the most part, value is less sensitive to interest rates than growth is. In a conventional discounted cash flow analysis, higher-growth companies lose more when rates rise than low-growth companies do. They can overcome the effect of higher interest rates by exceeding earnings expectations, but in general, investors tend to sell tech stocks when interest rates increase. Value stocks are less affected by the rate hikes because their present values are reduced less by them, in percentage terms.

There are even some value stocks that can arguably thrive in high-rate environments. Banks like **The Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) can pass on higher interest rates to their customers. When the central bank raises interest rates, banks like TD respond by raising the interest rates they charge to customers. The end result, theoretically, is higher profit margins. It doesn’t always work out this way in practice. As the U.S. Federal Reserve of St. Louis points out, there have been times when bank margins and interest rates moved in opposite directions. But we have evidence supporting the thesis that interest rates can be positively correlated with bank earnings sometimes. For example, in its Q1 2021 earnings release, **Bank of America** said in no uncertain terms that lower interest rates were responsible for its lower earnings in the period. TD operates in the U.S. banking sector just like BAC does, so it is affected by the same macro conditions.

## Tech stocks getting very expensive

Another reason why value stocks may beat growth stocks in 2022 is because some tech stocks are getting very expensive. If you look at **Lightspeed POS**, for example, it fell more than 70% after a short seller's report shook investor confidence and an earnings release showed a widening net loss. Yet the stock still trades at 14.5 times sales, which is fairly high. Bubble stocks tend to correct eventually, and while the NASDAQ has dipped already this year, it could dip further.

## Some of the best growth is found in value stocks

Last but not least, there is the fact that some of the best growth out there these days is actually found in value stocks. If you look at **Micron Technology** (NASDAQ:MU), for example, it trades at just 10.5 times GAAP earnings, 12.5 times adjusted earnings, and 6.3 times operating cash flow. Super cheap. Yet this is a stock that grew revenue at 33% and earnings at a scorching hot 177% in its most recent quarter. If Micron can keep results like this up, then its stock is very likely to see continued upside. So growth and value needn't be at odds with one another. Very frequently, they're found together in the same stock.



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andrewbutton