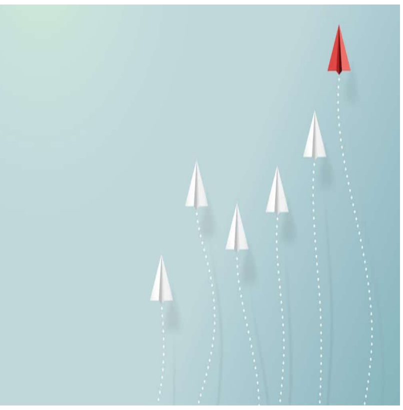

Why Cheap Stocks Are Beating Tech Stocks in 2022

Description

In 2022, cheap stocks are beating tech stocks by a pretty wide margin. As of January 28, the NASDAQ was down 13% for the year, while the Dow was down only 5%. Some sectors, like banking, have fallen less than value stocks as a whole, while others, like energy, have even delivered positive returns. In this article, I will explore the two main reasons why value stocks are beating tech stocks in 2022 — and ask whether the trend could be at its cresting point already.

Interest rates rising

One thing value stocks have going for them right now is the fact that interest rates are rising. Higher interest rates harm most companies, but they hurt value stocks less than tech stocks. The present value-reducing effect of an interest rate increase is larger on stocks with higher growth rates. So, when interest rates go up, value stocks should theoretically go down less than tech stocks. This is consistent with what we've seen so far this year, in which the markets as a whole have declined, but tech stocks fell much more than others.

There are even some cheap stocks that can actively benefit from higher interest rates — for example, consider **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). As a bank that operates in both Canada and the United States, it can pass higher interest rates on to its customers. When central bank rates go up, deposit interest goes up, but banks make up for it by increasing loan interest even more. As a result, when rate hikes occur, the spread between deposits and loans increases, leading to higher profit margins on loans.

Tech valuations high

Another reason why value stocks are beating tech stocks this year is because tech valuations have gotten extremely steep. Since November 19, **Shopify** (TSX:SHOP)(NYSE:SHOP) stock has fallen nearly 50%. It has been a very pronounced selloff, the kind that might inspire you to "buy the dip." However, SHOP is still very pricey even after the selloff. According to YCharts, the company trades at 26 times sales

. That's a very high sales multiple, and the adjusted earnings multiple is, of course, even higher.

The end of the trend?

Tech stocks are taking a beating in January and are being outperformed by value stocks. That might lend credence to the idea that investors should pivot to value stocks now. In late December, I was indeed doing just that. In fact, I even wrote about it, reasoning that the inflated multiples of tech stocks made them undesirable. Today, though, tech stocks have gone low enough that they're probably worth buying. My most recent investment was in the **Invesco QQQ Trust ETF**, a tech sector ETF that offers plenty of exposure to the tech names that got beaten down in the recent market crash.

CATEGORY

1. Investing
2. Tech Stocks

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3. TSX:SHOP (Shopify Inc.)
4. TSX:TD (The Toronto-Dominion Bank)

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