



Why Value Stocks Beat Growth Stocks in Q1

Description

Value stocks outperformed growth stocks in the first quarter of 2022. For the quarter, the tech and growth heavy NASDAQ fell about 7.5%, while the value-oriented Dow Jones Industrial Average fell only 3.5%. Depending on how you look at it, the NASDAQ could be said to have some value plays in it. Some tech stocks were getting pretty beaten down, even before this year's selloff. But generally speaking, "traditional" value stocks (banks, energy, utilities) did better than growth stocks in Q1. In this article, I will explore some reasons why that happened.

Oil rallied

One of the big factors that contributed to value stocks' outperformance in Q1 was [the oil rally](#). For the first 60 days of the quarter, oil prices were very strong. This led to equally strong gains in energy stocks like **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)). Suncor is a classic value stock, trading at just 1.6 times sales and 1.7 times book value.

Like most energy companies, it makes more money when the price of oil is strong. In the fourth quarter, it [earned \\$1.55 billion](#) compared to a loss in the same quarter a year before. That was in no small part thanks to the relatively strong oil prices seen in the fourth quarter. In the first quarter, the oil prices went even higher than those seen in Q4. So, investors bid up SU stock in expectation of strong earnings.

Interest rates took a bite out of growth

Another factor that may have led to value stocks outperforming tech stocks was rising interest rates. Higher interest rates are generally worse for growth stocks than value stocks. All assets lose value when rates go up, but higher-growth assets lose much more in percentage terms. As a result, tech stocks and other growth names tend to fall a lot during rate-hiking periods — value names much less so.

There are even some value stocks that can actively profit off of interest rate hikes. Banks, for example,

can charge higher rates on their own loans when interest rates rise. This fact led to some bullishness in banks earlier in the year. Today, however, the yield curve is inverting, which has the opposite effect of overall higher interest rates. So, bank stocks have been showing some weakness for the last month or so.

Is the trend over?

It's clear that value stocks had a comparatively good run in the first quarter. The question is, will this trend continue? The Fed conducted its first interest rate hike of the year in March, and tech stocks rallied immediately after it was concluded. It doesn't look like higher interest rates are taking much of a bite out of tech stocks now that they're already happening. It may be that the tech crash we saw earlier in the year was stocks acting as a "leading indicator" and correcting before the rate hikes materialized. If that's the case, then they may have some room to rise from this point onward.

I own a decent collection of both value and growth names. I have no immediate plans of selling any of them. In the end, what matters isn't the "type" of stock you own; its quality and potential future return. Focus on that, and you should do well over the long run.

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