

Barrow Hanley: Don't forget value in a momentum-driven market

By Perpetual Asset Management

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The “Trump trade” is very different in 2024 compared to 2016, say Barrow Hanley’s James Carpenter and Brad Kinkelarr.

- 2024 different environment to 2016
- Conditions right for value investing
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Few really expected Trump to win in 2016, so no-one put Trump trades on before the election.

In 2015 and 2016, cyclical stocks were undervalued before performing well in the first year of Trump’s Presidency.

But that was because of valuation, rather than a “Trump trade”, says Brad Kinkelaar, a senior managing director and equity portfolio manager at US-based value manager Barrow Hanley (part of Perpetual Group).

“Once he won, people waited to see how it played out and what he was going to try to implement and get through Congress,” Kinkelaar says.

“Then you started to see pro-cyclicals outperform. The banks started to outperform.”

However, we are in a very different environment today.

“Take the banks – in the year before Trump was elected in 2016, the US bank index was down two per cent and the S&P500 was up one-and-a-half per cent,” Kinkelaar says.

“Coming into this election, banks have already run 60 per cent [over the past year] and the S&P500 is up 34 per cent.”

Kinkelaar notes that US banks were priced at one times book value at the end of 2016, and after running in the first year of the Trump Administration, they reached 1.4 times book value.

“Today, we have already had a huge run up in banks and you are already paying 1.3, or 1.4 times book value,” he says.

“The point is if you wanted to play a Trump bet, then it should have been a year ago, not today.”

The anecdote highlights the need to adhere to a value discipline, adds James Carpenter – a managing director and portfolio manager at Barrow Hanley.

When value does well, Barrow Hanley does well, he says, and its strength involves sticking with a process.

“Not all value managers behave like a value manager,” he adds.

Kinkelaar says the current environment, even amid the Trump trades, is a classic value environment.

“We’ve been waiting for this for a long time... We Just want to stick to our knitting and keep doing what we always do, and just try and find undervalued stocks,” Kinkelaar says.

“We’re not trying to pick Trump trades over the next three to six months, like others are doing... They are likely to be crowded trades,” he says adding that investors often forget about valuation, when there’s momentum in a market.

“Not being in the Trump trade ... could be painful over three or six months.

“But I’d be willing to wager that we are going to do better over the Trump Presidency and that’s what our clients want us to do.”

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Rated "Highly Recommended" by Zenith, "Highly Recommended" by Lonsec and with a Morningstar Medallist rating of "Gold", the investment team focuses on finding value in all the right places.

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