

THE VALUE CYCLE IS INTACT

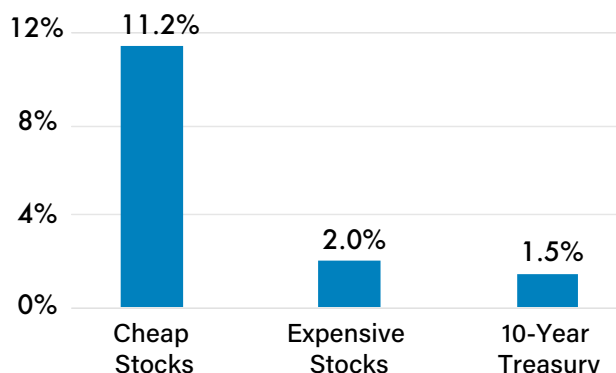
ALMOST NO ONE BELIEVES VALUE WILL WORK UNTIL IT ALREADY HAS.

Today, the value opportunity set is robust, earnings projections are strong, and prices are low. Yet, as growth outpaced value in June, the naysayers are back, claiming an end to the vaunted value rotation.

But the data is on our side.

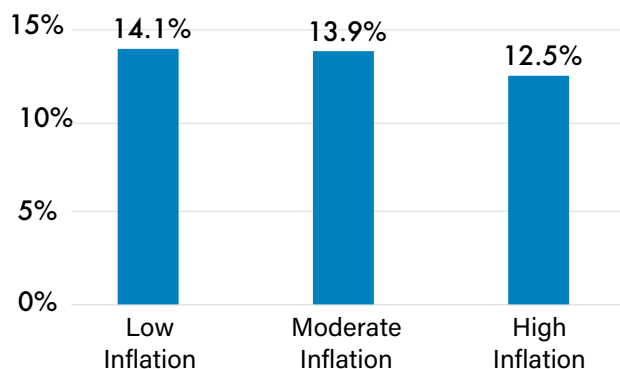
Today, value stocks offer double digit earnings yields vs. low single digits for expensive stocks, AND there is more growth potential in value stock earnings.

Figure 1: Cheap Stocks Still Offer a Double-Digit Earnings Yield



Source: Federal Reserve Bank of St. Louis, Pzena analysis

Figure 2: Similar ROEs Over Inflationary Periods



SO HOW MIGHT INFLATION IMPACT VALUE INVESTMENTS?

Our study of 60 years of data shows that value stocks performed somewhat better in periods of higher inflation, and that long-term corporate profitability has not varied much across various inflationary regimes.

Inflation isn't the dominant variable; the starting point of valuation is key. Companies proactively manage the inflationary environment through pricing and other actions.

Source: Federal Reserve Bank of St. Louis, Sanford C. Bernstein & Co., Pzena analysis

BOTTOM LINE: THE VALUE APPROACH DOESN'T NEED INFLATION TO WORK.

As economic activity normalizes and the benefits of proactive cost-cutting are seen, we expect value stocks to show superior earnings potential. **This bodes well for the ongoing value-stock rotation**, though it may not be smooth.

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FURTHER INFORMATION

Figure 1: Cheapest/Expensive earnings yield are based on the median stock within the cheapest and most expensive quintile based on price-to-normal earnings. The quintiles are measured on an equally weighted basis within the ~1,000 largest US stock universe. Price-to-normal earnings are Pzena's estimates. Data as of June 30, 2021. Past performance is not indicative of future returns.

Figure 2: Return on equity is based on trailing 12 months and calculated using a simple average within each inflation regime; universe is the largest ~500 US stocks. Inflation bucket cutoffs are set such that each regime has the same number of observations. Low inflation cutoff is below 2.17% and high regime is above 4.44%. Inflation is measured on a 5-year annualized basis rolling monthly. Data in US dollars 1960 – June 2021. Past performance is not indicative of future returns.

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