



CIO's outlook for continued outperformance of value company earnings is a key driver of their preference for value over growth. (UBS)

Lower rates should help growth stocks, right?

06 December 2022, 3:37 pm CET, written by UBS Editorial Team

As many observers have pointed out, over the last few years there has been a significant correlation between interest rates and the performance of growth stocks. When rates were falling in 2020 and near rock bottom levels in 2021, this was a nice tailwind for growth stocks.

As rates have skyrocketed this year, growth stock valuations have come under pressure. The logic is that the bulk of growth company cash flows are realized well into the future, so they have a longer “duration” than value stocks. In other words, the market views growth stocks as the zero-coupon bonds of the equity market.

But something seems to be shifting. Since 24 October, 10-year Treasury yields have fallen quite dramatically from 4.24% to 3.60% today. Yet, growth stocks have underperformed value stocks by over 4 percentage points. Materials and industrials have been the best performing sectors over this period. What’s going on?

We think corporate profits are the answer. In the early stages of the recovery from COVID-19, growth company profits surged as companies raced to digitize their businesses and consumers flocked to e-commerce and video streaming. But over the last several months, many of these COVID-19 beneficiaries have suffered as spending shifted back to pre-pandemic activities. This is evident by looking at relative expected earnings trends between growth and value companies.

Our outlook for continued outperformance of value company earnings—despite potentially lower interest rates over the next year—is a key driver of our preference for value over growth.

Main contributors: David Lefkowitz, Nadia Lovell, Matthew Tormey

For more, see [Lower rates should help growth stocks, right?](#), 6 December 2022.

Content is a product of the Chief Investment Office (CIO).



Important information: <https://www.ubs.com/global/en/wealth-management/our-approach/marketnews/disclaimer.html>

The product documentation, i.e. the prospectus and/or the key information document (KID), if any, may be available upon request at UBS Switzerland AG, Bahnhofstrasse 45, 8001 Zurich/Switzerland. Before investing in a product please read the latest prospectus and key information document (KID) carefully and thoroughly. Version B/2020. CIO82652744
© 2022 UBS Switzerland AG. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.