

# UPDATE ON THE BURSTING BUBBLE IN GROWTH STOCKS

*Jeremy Grantham, Simon Harris, and Ben Inker* | June 15, 2022

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## OVERVIEW

In this webcast, Jeremy Grantham, Ben Inker, and Simon Harris discuss recent market volatility and provide an update on the opportunity the wide spread in valuations between Value and Growth stocks still presents. While Value has had a strong year relative to Growth, our analysis indicates that considerable potential remains.

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## KEY POINTS

- The bubble has not finished losing air, and further declines could take a couple of years to play out. High valuations are widespread across equities, bonds, housing, and commodities.
- The group that has been far and away the most painful for investors has been “growth traps” – Growth stocks that disappoint relative to analysts’ forecasts. Even against the backdrop of lousy overall returns for Growth since last summer, growth traps have managed to underperform the broad Growth universe by their largest margin for any comparable period in history.
- We believe the Equity Dislocation opportunity is still incredibly strong. The chart below shows the valuation of U.S. Value stocks relative to U.S. Growth stocks through history; it is normalized such that 1 is fair value. GMO launched the Equity Dislocation Strategy in October 2020 to exploit the bubble in Growth stocks. At that time, U.S. Value was at 53% of fair value, 2<sup>nd</sup> percentile relative to history. The only time Value had been more attractive relative to Growth was the height of the tech bubble. While the Value/Growth spread has reverted since then, we believe considerable potential remains. As of May 31, 2022, this metric stood at 75% of fair value, 11<sup>th</sup> percentile vs. history. If relative valuations revert to long-term average levels, a long global Value, short global Growth portfolio could generate strong absolute returns from here.



### Jeremy Grantham

Mr. Grantham co-founded GMO in 1977 and is a member of GMO's Asset Allocation team, serving as the firm's long-term investment strategist. He is

a member of the GMO Board of Directors and has also served on the investment boards of several non-profit organizations. Prior to GMO's founding, Mr. Grantham was co-founder of Batterymarch Financial Management in 1969 where he recommended commercial indexing in 1971, one of several claims to being first. He began his investment career as an economist with Royal Dutch Shell. Mr. Grantham earned his undergraduate degree from the University of Sheffield (U.K.) and an M.B.A. from Harvard Business School. He is a member of the Academy of Arts and Sciences, holds a CBE from the UK and is a recipient of the Carnegie Medal for Philanthropy.



### Simon Harris

Mr. Harris is the head of GMO's Global Equity team. In his decades at GMO, Simon has had extensive portfolio management, quantitative research, and

team leadership experience including as the head of the UK Equity team prior to its merger with the Global Equity team. Previously, he also served as co-CEO of GMO UK Ltd. Prior to joining GMO in 1989, he earned his BSc in Mathematics from The City University (London). Mr. Harris is a Fellow of The Chartered Institute for Securities & Investment.



### Ben Inker

Mr. Inker is co-head of GMO's Asset Allocation team and a member of the GMO Board of Directors. He joined GMO in 1992 following the completion

of his B.A. in Economics from Yale University. In his years at GMO, Mr. Inker has served as an analyst for the Quantitative Equity and Asset Allocation teams, as a portfolio manager of several equity and asset allocation portfolios, as co-head of International Quantitative Equities, and as CIO of Quantitative Developed Equities. He is a CFA charterholder.

### Disclaimer

The views expressed are through the period ending June 2022, and are subject to change at any time based on market and other conditions. This is not an offer or solicitation for the purchase or sale of any security and should not be construed as such. References to specific securities and issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities.

## VALUE IS EXTREMELY CHEAP



As of 5/31/2022 | Source: GMO

Composite Valuation Measure is composed of price/sales, prices/gross profit, price/book, and price/economic book. Value and Growth groups are both sliced over 12 months.

- As the opportunity set evolves, the Strategy will capitalize on rebalancing opportunities to focus on the valuation extremes across global markets.
- Clients have implemented this Strategy both as a hedge for venture capital and Growth equity exposure as well as a compelling stand-alone return opportunity.

## RELATED STRATEGIES

Please click on the links below to access strategies related to this event.

- [GMO Equity Dislocation Strategy](#)
- [GMO Benchmark Free Allocation Strategy](#)

## RELATED RESEARCH

Please click on the links below to access research related to this event.

- [Let The Wild Rumpus Begin](#)
- [Growth Traps Snap Shut](#)
- [The Turn in Value Is Just Getting Started](#)
- [Growth Bubble: Making Money on Companies That Make No Money](#)