

2023 VALUE OUTLOOK: *Capitalizing on Dislocations*

Ben Inker, Catherine LeGraw, and Michelle Morpew | January 5, 2023

OVERVIEW

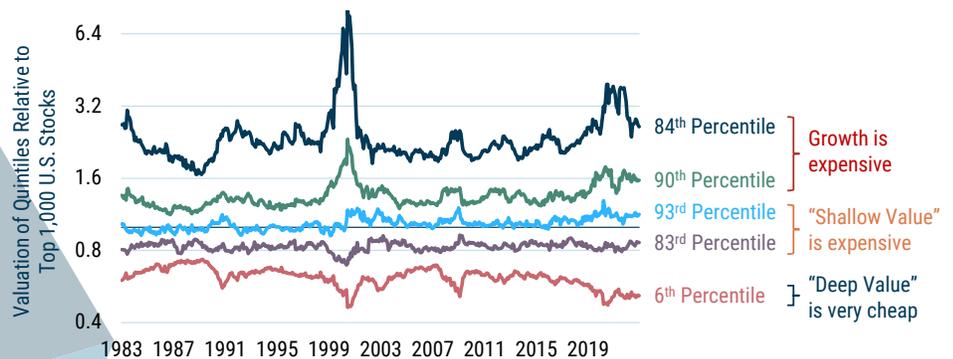
We welcome you to kick off the new year with a brief update on opportunities in the Value universe and how these opportunities might impact your portfolio allocations in 2023. In the webcast, Ben Inker, Michelle Morpew, and Catherine LeGraw cover forecasts for Value outperformance, compelling dislocations in U.S. Deep Value and Value/Growth spreads globally, and strategies for capturing the opportunity.

KEY POINTS

- Value continues to look attractive globally relative to Growth. In the U.S., there is a special opportunity in Deep Value stocks.
- Globally, Value is priced to outperform Growth significantly if valuations return to median.
- Within the U.S., we believe the most attractive group of stocks is one that most portfolios may not have much exposure to – the cheapest quintile or “Deep” Value. After the longest cycle in which Growth massively outperformed Value, many portfolios dropped their underperforming Value managers, and those that hung on leaned a bit less on Value to survive.
- The GMO Asset Allocation team uses the Equity Dislocation and U.S. Opportunistic Value Strategies across their portfolios to gain targeted exposure to these attractive investment opportunities.

WITHIN THE U.S., “DEEP VALUE” SEGMENT (CHEAPEST 20%) IS TRULY DISLOCATED

Quintiles of Valuation in Top 1,000 U.S. Stocks



Preliminary as of 12/31/2022 | Source: GMO

Composite valuation measure is composed of Price/Sales, Prices/Gross Profit, Price/Book, and Price/Economic Book. Quintiles of value and market are weighted by 4th root of market cap.



Ben Inker

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

following the completion of his bachelor's degree 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.



Catherine LeGraw

Ms. LeGraw is a member of GMO's Asset Allocation team and a partner of the firm. Prior to joining GMO in 2013, she worked as a director at BlackRock.

Previously, Ms. LeGraw was an analyst at Bear, Stearns & Co. She received her BA and her BS in Economics from the University of Pennsylvania. She is a CFA charterholder.



Michelle Morpew

Ms. Morpew is a portfolio strategist for GMO's Systematic Equity team. Prior to joining GMO in 2017, Ms. Morpew worked at Arrowstreet Capital, LP, most

recently as a portfolio manager. Previously, she was a product specialist at Wellington Management Company and prior to that was an equity analyst at Putnam Investments. Ms. Morpew received her bachelor's degree in Social Studies from Harvard University, her MA in International Studies from The Lauder Institute at the University of Pennsylvania, and her MBA in International Financial Analysis from the Wharton School at the University of Pennsylvania. She is a CFA charterholder and CFA certified in ESG Investing.

Disclaimer

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