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Are value stocks staging a comeback?

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Cyclical, structural, and secular stars are aligning for value stocks.

Recent years have not been kind to value investors: market concentration soared in primarily growth-oriented technology names, earnings growth pooled in those same names, and 2025 saw a torrid low-quality rally. However, cyclical, secular and structural tailwinds may turn the tide for value stocks in 2026.

First, it is important to note the dynamics of the rotations underway in the equity market:

- **Magnificent 7:** The biggest are no longer the best. In 2023, all seven Magnificent 7 stocks easily beat the S&P 500; in 2024, six did. Then, last year just two did, and the magnitude of outperformance shrank considerably. Year-to-date, just two are positive and only one is outperforming the S&P 500. Despite stellar earnings growth, AI anxieties are punishing upside AI capex surprises more than upside revenue results are being rewarded. It should be noted, however, that certain Mag 7 stocks bear a significant weight in value indices, making them eligible for value investors if they meet the right criteria.
- **Low Quality:** Rally to rout. Last year, low-quality stocks rallied after tariff uncertainty stabilized. That meant quality stocks suffered the worst calendar year underperformance vs. the S&P 500 since 2003. Yet, this year quality has had a strong start, creating a better environment for stock pickers focused on profitability, strong balance sheets and favorable relative valuations.
- **Value:** Vetoing volatility. While value has lagged growth in recent years, value has shined in periods of heightened volatility. Value is outperforming growth by nearly 11%-pts YTD (6.4% vs. -4.4%), the widest margin since last spring's tariff-related volatility. When volatility picks up, value protects, particularly given its lower relative valuations and emphasis on quality.

Still, just because tech is doing poorly doesn't explain why value is doing so well. Underneath a flat S&P 500 lies a bifurcated market, one in which the tech sector is down, but five of the eleven sectors are up double digits. This rotation into value is underpinned by several factors:

- **Cyclical:** Modest rate cuts, fiscal easing from elevated tax refunds and strong economic momentum provide support to cyclical sectors.
- **Secular:** Sentiment may have soured on AI innovators and AI-vulnerable industries, but AI demand does not appear to be slowing. Therefore, AI infrastructure and the beneficiaries of massive AI capex have led the market this year in sectors like industrials and materials. This isn't a rotation out of AI, but rather into different parts of AI.

- Structural: The policy backdrop is not only favorable from a fiscal and monetary perspective, but corporate tax changes from the OBBBA which postpone certain tax liabilities may incentivize capex today, coinciding with the AI capex boom. In addition, a more pro-business climate coupled with lower rates has spurred capital markets activity, benefiting financials, which facilitate this activity. Last year was a record year for North American M&A, and the IPO pipeline is robust for 2026-2027.

The confluence of these factors has helped boost earnings growth to double digits in the S&P 500 and excluding the Mag 7 for 2025 and for 2026 estimates.

Cyclical, structural and secular stars are aligning for value stocks, but it's also clearly an environment laden with risks and uncertainty, requiring intelligent investing in the equity market.

Value is outperforming growth by the widest margin since last spring

Russell 1000 Value and Russel 1000 Growth, price, indexed to 100 = 1/1/26



Source: Factset, Russell, J.P. Morgan Asset Management. Data are as of February 24, 2026.

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