March 2025

A Resemblance to the 1966-1982 Sideways Market

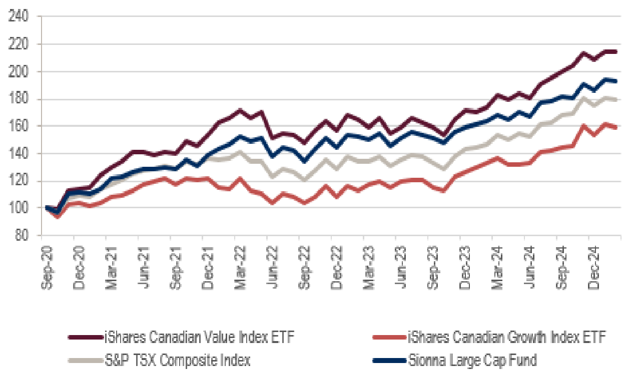
1966-1982 was a period of high inflation and weak economic growth: in short, stagflation. The S&P 500 entered a range bound period of rising then weakening markets.

Source: John Buckingham. "Debunking The Myths – Did Stocks Really Go Nowhere From 1966-1982?" Forbes. February 2023.

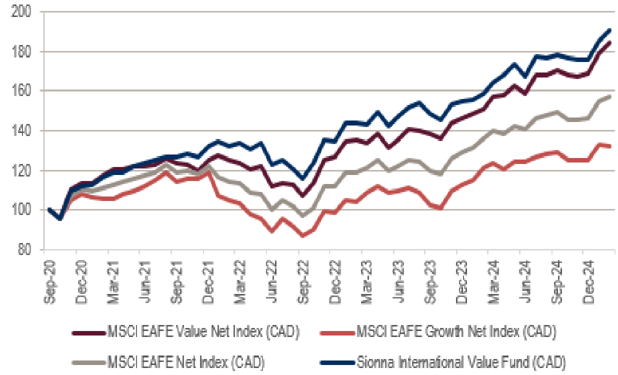
During this period, the S&P 500 returned 5.95% annually, essentially its dividend yield. However, value investors who focused on quality, low valuation stocks managed to earn an above long-term average return for investors of 13.39%!

Fast forward to more recent market events. During the four years since rates bottomed and subsequently rose from the lows in the summer of 2020, the market has delivered a stealth value recovery in major markets outside of the U.S. (the U.S. market is distorted by the Magnificent 7 stocks). This seems reminiscent of the early stages of the 1966-1982 period.

Growth of $100 (September 30, 2020 – February 28, 2025)



	Annualized Total Return	Annualized Standard Deviation
Value Index	18.9%	14.5%
Sionna	16.1%	13.3%
TSX	14.2%	13.0%
Growth Index	11.1%	14.6%



	Annualized Total Return	Annualized Standard Deviation
Sionna	15.8%	13.1%
Value Index	14.9%	13.1%
MSCI EAFE	10.7%	12.6%
Growth Index	6.6%	14.1%

Source: FactSet and Sionna Investment Managers. Using Sionna's Large Cap Fund and International Fund as representative accounts, Sionna performance is gross of fees.

As value managers, we were able to earn serious outperformance relative to the broad markets in 2022, similar to the 1966-1982 period. This recent period of outperformance was followed by a growth surge at the end of 2022 lasting for the next year and a bit, arguably caused by renewed enthusiasm over the introduction of AI. Some, but not all, excess returns that value investors had earned melted as growth investors' risk taking and bravado returned.

Now, with the uncertainty around tariffs and changes in the U.S. administration, we seem to be in the early stage of an emerging value outperformance opportunity. A new seesaw tilt appears to have begun…as it did in 1966-1982.

It's too early to declare a definitive trend. However, history suggests investors may benefit from beginning to tilt toward the underinvested value style now – waiting for the trend to be confirmed may be too late. We could be entering a 1966-1982 stagflationary, low growth environment, where the value style previously proved its defensive nature.

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