

Value is working. Here's why it can continue



From the Field

Key Insights

- Value is no longer a recovery story, it is already working across Europe, Japan, and international markets, with early signs that the U.S. may be starting to follow.
- Higher-for-longer rates, tighter commodity supply, and fiscal expansion are shifting the market backdrop toward cash-generative companies with historically resilient earnings and attractive valuations.
- Artificial intelligence (AI) may be masking value's resurgence in the U.S., but its rising capital intensity could strengthen the case for real economy sectors tied to infrastructure, energy, and commodities.



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Value investing is no longer waiting for a revival. In Europe, Japan, and international markets, value has been working, supported by higher rates, stronger commodity dynamics, and renewed investor focus on cash flows and valuations. The U.S. has been the notable exception, where a narrow group of large-cap technology companies has continued to dominate returns. But even there, the case for value may now be strengthening as market leadership begins to broaden and the investment case for big tech becomes more capital intensive.

Today's investment landscape is being shaped by persistent inflation, elevated fiscal spending, tighter labor markets,

structurally stronger commodity demand, and increasing geopolitical fragmentation. These are not simply short-term cyclical forces. They point to a potential inflection in how markets behave and how returns are generated. In this environment, value is no longer just a contrarian position. We believe it is increasingly becoming part of the next phase of market leadership.

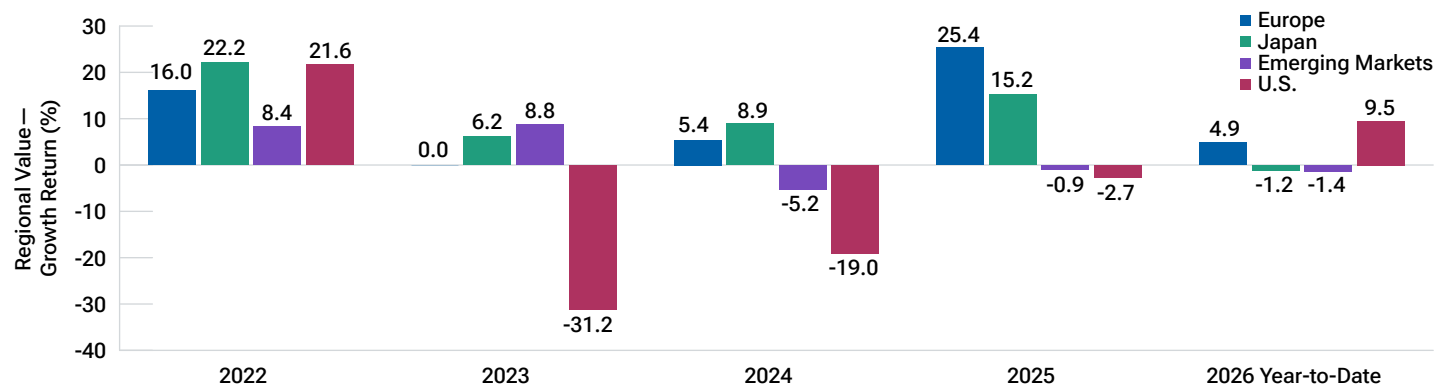
Value's global resurgence is being masked by U.S. technology leadership

Value-oriented areas of the market, particularly in Europe and Japan, have delivered stronger relative returns,

“
...value is no longer just a contrarian position.”

U.S. tech concentration has obscured value's global resurgence

(Fig. 1) Relative returns of value vs. growth across U.S., Europe, Emerging Markets, and Japan



As of April 30, 2026.

Past performance is not a guarantee or a reliable indicator of future results.

Indexes used: MSCI Europe Value Index vs. MSCI Europe Growth Index; MSCI Japan Value Index vs. MSCI Japan Growth Index; MSCI Emerging Markets Value Index vs. MSCI Emerging Markets Growth Index; Russell 1000 Value Index vs. Russell 1000 Growth Index. Total return, USD.

Source: FactSet, T. Rowe Price calculations. Please see Additional Disclosures page for more information about this MSCI information.

supported by more favorable macro dynamics (Figure 1). Since 2022, value has worked across most major markets outside the U.S. as the impact of structural economic forces has been more visible. In these regions, real economy sectors, particularly those linked to industrial activity and commodities, have led market performance. In contrast, in the U.S., the dominance of a small number of large-cap technology companies, particularly those linked to artificial intelligence, has masked these broader underlying trends. This divergence is important. It suggests that the drivers supporting value investing are already in place globally, but in the U.S., have been temporarily obscured by a concentrated set of growth stocks.

The shifting case for value in the U.S.

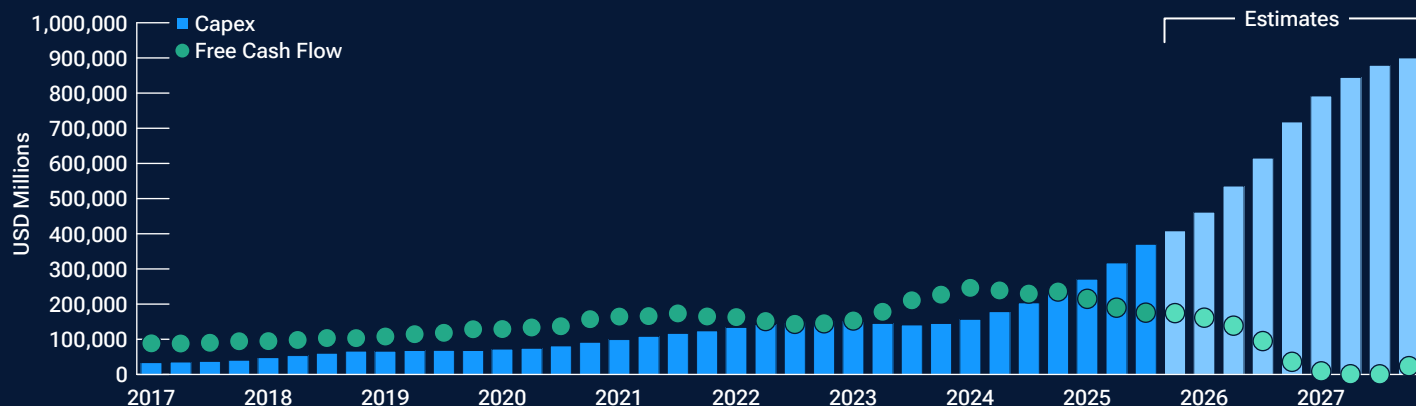
While value has been working across many non-U.S. regions, year-to-date (YTD) returns suggest the case for value investing in the U.S. may also be beginning to shift

(Figure 1). A key driver is the evolving role of large-cap technology companies, which have dominated market performance in recent years. The investment case for these companies remains strong, but it may be entering a new phase. Many of the structural growth drivers that supported these businesses (digital advertising expansion, cloud migration, and software-as-a-service adoption) are maturing.

At the same time, the rise of artificial intelligence is introducing a new dynamic as it becomes more capital-intensive. The scale of investment required to build and maintain AI infrastructure is increasing, putting real pressure on free cash flow generation and potentially compressing margins (Figure 2). Questions around monetization, competitive dynamics, and the risk of new entrants also remain unresolved. This does not diminish the importance of these companies, but it does suggest that their role as the sole drivers of market returns may become less dominant over time.

AI Hyperscaler¹ returns are being questioned as capital intensity rises

(Fig. 2) AI is shifting big tech from asset-light to capital-intensive



Q1 2017 to Q4 2026 (Q4 2025 to Q4 2027 are estimates).

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For illustrative purposes only. There can be no assurance that the estimates will be achieved or sustained. Actual results may vary.

¹ Microsoft, Alphabet, Amazon, Meta, and Oracle.

Source: T. Rowe Price analysis using data from FactSet Research Systems Inc. All rights reserved. See Additional Disclosures.

A changing macro regime

This shift in market leadership is also being driven by a deeper change in the macroeconomic environment. Markets are no longer anchored to expectations of persistently low inflation and interest rates. Instead, they are adjusting to a world where inflation is more durable and fiscal spending is elevated. Interest rate expectations have reset toward a “higher-for-longer” environment. Higher discount rates challenge the valuation of long duration growth assets, while increasing the relative attractiveness of companies generating cash flows in the present. In this environment, balance sheet

strength, earnings resilience, and valuation discipline should be rewarded.

From recovery to rebalancing

Some may question the durability of the shift toward value, while others are asking whether they have missed the opportunity to participate in the recovery. The evidence points to a broader rebalancing. Even though market concentration remains elevated relative to history, capital is increasingly being redirected toward more capital-intensive sectors, while global economic activity is becoming more tied to real assets and infrastructure, areas that have traditionally been more value oriented.

“ Markets are no longer anchored to expectations of persistently low inflation and interest rates.”

Three macro shifts supporting value investing

Past Regime	What Has Changed	Potential Beneficiaries
Secular Stagnation	▶ Tighter labor markets, fiscal expansion, geopolitical fragmentation	▶ Materials & Industrials
Commodity Oversupply	▶ Underinvestment, tighter supply, stronger pricing power, energy security	▶ Energy & Resources
Ultralow Rates	▶ Higher-for-longer rates, elevated discount rates, renewed focus on cash flows	▶ Financials, Utilities & Cash-Generative Value Sectors

Moreover, the increasing importance of commodities, industrial production, and physical infrastructure suggests that the real economy is regaining prominence in driving market returns.

Artificial intelligence plays a dual role in this transition. On the one hand, it is a powerful driver of investment, innovation, and productivity gains. On the other, it is contributing to the concentration of returns in a narrow set of companies, particularly in the U.S. This has created a dynamic where AI is both masking the broader shift toward value and accelerating the need for capital investment, which ultimately supports value-oriented sectors. As AI adoption broadens across industries, its impact is likely to extend beyond the technology sector, reinforcing the broader rebalancing of market leadership.

Value and growth: Both have a role to play

The current environment signals the emergence of a market with broader leadership. Multiple drivers of return are reemerging, and valuation discipline is becoming increasingly important. As recent sector performance shows, both growth and value have meaningfully contributed to returns (Figure 3). This reflects a more complex market backdrop, where structural forces are increasingly supportive of value, but growth remains an important source of return potential, particularly in areas benefiting from technological change. Value offers exposure to sectors benefiting from capital intensity, higher rates, and real economy dynamics, while growth provides participation in long-term innovation and productivity trends. In this more balanced market, success will depend less on style allocation and more on disciplined investment selection.

“...success will depend less on style allocation and more on disciplined investment selection.”

Sector performance shows why balance matters

(Fig. 3) Value and growth: Both have a role to play

Index Name	YTD % Change	One Year % Change	Three Year % Change	Five Year % Change
MSCI World Index	5.8	29.7	73.8	74.7
MSCI Energy	34.3	56.7	63.9	181.2
MSCI Materials	12.5	34.5	47.0	46.0
MSCI Industrials	12.1	33.6	83.2	82.1
MSCI Consumer Discretionary	-2.0	17.1	50.7	27.5
MSCI Consumer Staples	7.3	6.7	19.1	34.6
MSCI Health Care	-4.6	6.5	14.3	27.3
MSCI Financials	0.2	21.4	90.3	88.5
MSCI Information Technology	7.0	47.2	123.7	128.5
MSCI Communication Services	8.6	47.3	131.1	78.9
MSCI Utilities	12.7	27.3	57.5	67.6
MSCI Real Estate	9.8	13.5	31.3	16.7

As of April 30, 2026.

Past performance is not a guarantee or a reliable indicator of future results.

Performance measurement: Cumulative % change in index price over period to April 30, 2026.

Sector key attributes: Blue = Traditional value (key attributes: cyclical—performance often mirrors the broader economy); Green = Growth (key attributes: high innovation—price is based on future earnings potential rather than current assets); Purple = Defensive value (key attributes: stable—provides essential services that remain in demand during recessions).

Source: MSCI. See Additional Disclosures.

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