BNY | INVESTMENTS

INFLATION & INVESTMENT STYLES: NAVIGATING THE GRAY AREAS

INVESTMENT VIEWS
FROM OUR PARTNERS AT
NEWTON INVESTMENT MANAGEMENT

May 2025

The prospect of higher inflation is leading many investors to consider how to reposition portfolios. Generally, a low interest rate environment favors growth style investing, while higher-inflation environments have favored value investing. However, there can often be overlaps in the two categories, blurring the lines between styles. We believe that active management may assist with navigating these dynamics.

Inflation expectations

While inflation eased last year, tariff shocks pose upside risk to inflation. Meanwhile, we expect the Federal Reserve (the "Fed") to keep rates on hold for most of 2025. See more in our latest macro report: **Vantage Point**.

Navigating inflation

Historically, value has tended to outperform growth in an inflationary environment. This is because during periods of inflation, central banks tend to keep interest rates high. Growth stocks suffer more when rates rise because their valuations rely heavily on future earnings, which get discounted more harshly amid higher rates.

Value investing:
Investing in companies that appear undervalued relative to their fundamentals.

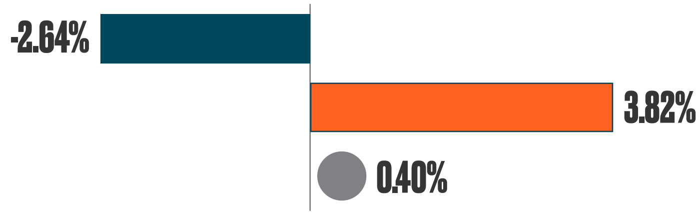
Growth investing:
Investing in companies expected to grow faster than the market average in terms of revenue, earnings, or cashflow.

Two scenarios we're monitoring

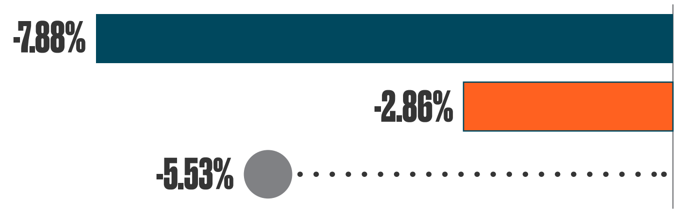
As the graphs below indicate, whether the monetary-policy environment is restrictive or stagflation develops, relatively speaking, value has tended to outperform growth in an elevated or extended inflation environment.

Russell 1000 Growth USD | Russell 1000 Value USD | Russell 1000 TR USD

RESTRICTIVE MONETARY POLICY (%)
High Inflation, Falling (%) — 47 months



STAGFLATION (%)
Low Growth High Inflation — 64 months



Source: Morningstar, MPI Stylus Pro, with data provided by Morningstar. Chart above left is based on 47 separate months from January 1, 2000 through April 30, 2025. Chart above right is based on 64 separate months from January 1, 2000 through April 30, 2025. **Past performance is not necessarily indicative of future results.** Charts are for illustrative purposes only.

The outperformance of value over growth is even more apparent during periods of stagflation — low growth paired with high inflation. This environment historically favors cyclically oriented value securities, as well as the financials represented in the Russell 1000 Value Index.

"We've seen inflation cool for much of 2024 but start to read a little bit hotter in the beginning of 2025," says Gregory Scozzari, Senior Vice President and Investment Strategist at Newton Investment Management, the multi-asset manager within BNY Investments. "This 'new normal' means markets may need to adjust expectations. Ultra-low interest rates are likely behind us, and we're moving into an environment with potentially higher rates and inflation."

And while traditional investment guidance is that investors can consider rebalancing towards value, "the lines between growth and value equity styles are not black and white," points out Scozzari. "You can't put entire sectors in neat boxes easily. For example, you can find inexpensive value companies in information technology just like you can find high growth companies and vice versa in sectors like industrials or healthcare."

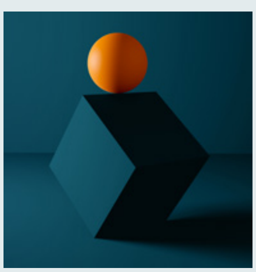
Active management may help to navigate gray areas

Active management may be key to navigating uncertain times and gray areas between investment styles. Active managers look beyond labels and focus on fundamentals. "When the distinction between growth and value is unclear, like finding value stocks in tech or growth companies in industrials, active managers don't rely on rigid categories. We analyze each company's earnings potential, balance sheet strength, valuation and competitive position to make investment decisions," points out Scozzari.

In addition, instead of buying entire sectors or funds, active managers seek to identify specific companies that are undervalued or poised for growth, even if they don't fit neatly into traditional categories. As inflation, rates and market dynamics shift, active managers can reallocate portfolios, capturing potential opportunities of avoiding potential pitfalls in sectors that are in transition.

GO FURTHER

Learn more about inflation and investment ideas from BNY Investments:



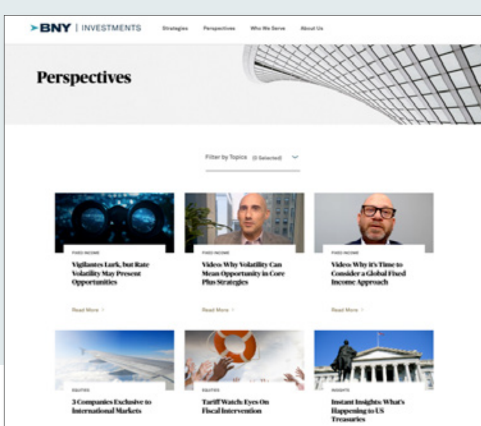
INFLATION AND MAGNIFICENT 7 VOLATILITY COULD POINT TO LARGE CAP VALUE OPPORTUNITIES

READ

BNY Investments Perspectives

With uncertainty and volatility expected to persist this year, investors may wish to consider active management as a complement to passive investment strategies. BNY Investments will continue to monitor market conditions and bring you our latest analysis.

VISIT



About Newton Investment Management

Newton Investment Management delivers active equities, income, absolute return (including fixed income), multi-asset (both fundamental and systematic), thematic and sustainable strategies within BNY Investments.

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