

June 2026

Eli Salzmann

Senior Portfolio Manager

David Levine, CFA

Portfolio Manager

The Great Rotation: Why the Recent Value Rally Is Ready to Resume

Barring a protracted stalemate in Iran, we believe value stocks are poised to resume their pre-conflict rally.

In March 2025, we called attention to the equity market's growth-oriented tilt and made the case for increasing exposure to value stocks (see [Rebalancing Act: Rethinking Growth Versus Value](#)). That observation proved prescient when the relative performance of growth versus value peaked last fall.

In this paper, we demonstrate why we believe the value rally is ready to resume despite a pause during the Iran conflict, the effective closure of the Strait of Hormuz and the latest surge by several AI-driven, mega-cap growth names. We also discuss the importance of maintaining a consistent, rigorous process when selecting value stocks and seeking optimal diversification across broader equity portfolios.

Value Mounts a Comeback

In March 2025, as a handful of U.S. Big Tech companies were pushing passively managed public equity portfolios into “growthier” territory, we advised managing risk by increasing exposure to value stocks. Six months later, value stocks—including those in the energy, banking and health care sectors—began mounting a comeback on the strength of economy-wide earnings growth and swelling doubts about Big Tech’s trajectory from already elevated levels.

Then came the conflict in Iran and the closure of the Strait of Hormuz. While energy stocks got a boost from spiking oil and natural gas prices, the rally in other traditional value-heavy sectors began to sputter. AI gave another gale-force tailwind to Big Tech—seen as a secular haven with a hint of cyclical— and now gargantuan initial public offerings (IPOs) from the likes of SpaceX, Anthropic and OpenAI could further whet investors’ appetite for growth.

Yet we believe value’s comeback is only on pause. Assuming tensions in the Strait begin to ease within the next few months, we expect the market’s broader rotation into value may again gather steam, giving investors the opportunity to add exposure at potentially attractive prices.

How Heady?

For sobering perspective on the market’s current hunger for growth, consider SpaceX’s forthcoming IPO. At an expected market cap target of \$1.75 trillion (the largest offering in history), the company would be valued at roughly 94 times its \$18.7 billion 2025 revenue.

We can’t help recalling what **Scott McNealy**, head of workstation-and-server maker Sun Microsystems, told Bloomberg in March 2002, after watching his company’s stock ping-pong from \$5 to \$64 and back to \$5 during the dotcom bubble:

“At 10 times revenues, to give you a 10-year payback, I have to pay you 100% of revenues for 10 straight years in dividends...That assumes I have zero cost of goods sold, which is very hard for a computer company. That assumes zero expenses, which is really hard with 39,000 employees. That assumes I pay no taxes, which is very hard. And that assumes you pay no taxes on your dividends, which is kind of illegal. And that assumes with zero R&D for the next 10 years, I can maintain the current revenue run rate...Do you realize how ridiculous those basic assumptions are?”

Meanwhile, the current aggregate price-to-sales ratio of the S&P 500 Index is approximately 3.7, and its long-term average, measured over the last 80 years, is roughly 1.2.¹

¹ Source: DGYPD, data through May 2026.

Why the New Value Cycle Is Ready to Resume

We believe historically heady valuations for growth stocks are just one variable in the broader “growth versus value” calculation.

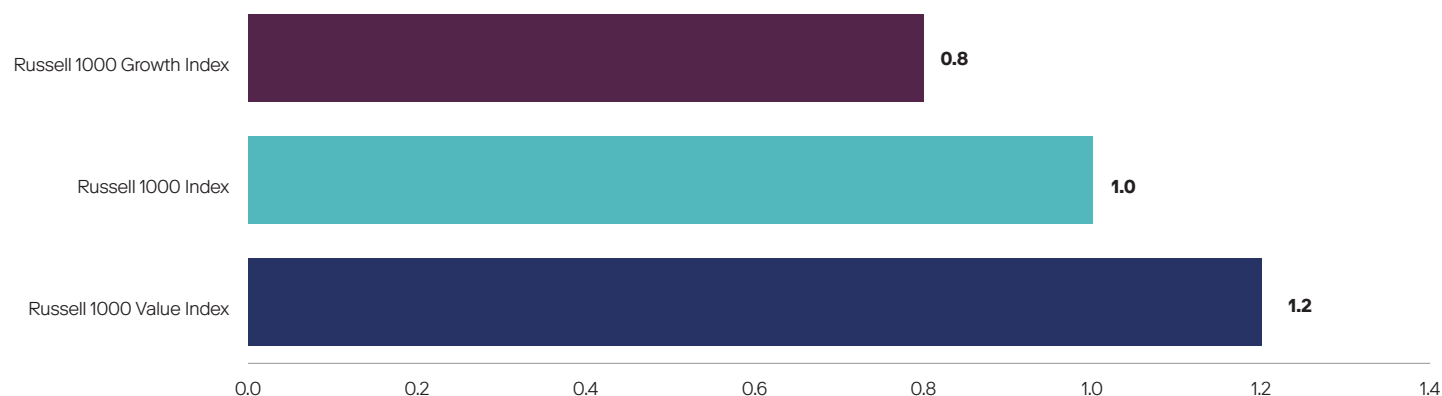
First, despite ongoing geopolitical conflicts and growing concern about near-term market volatility, we believe the fundamental case for global economic growth appears intact and remains broadly supportive of value stocks relative to growth stocks. (For more details on the macro backdrop, see our [2Q 2026 Equity Outlook](#).)

History suggests to us that value stocks are relatively more sensitive to rising global growth: As shown in figure 1, the sensitivity of corporate earnings to global trade volume across the Russell 1000 Value Index has been roughly 1.2; for the Russell 1000 Growth Index, the earnings beta was just 0.8.

FIGURE 1

Value Stocks Tend to Be Especially Sensitive to Rising Global Growth

EPS Beta to Global Trade Volume (2002 – Current)



Source: Neuberger research and FactSet, data as of April 30, 2026. Nothing herein constitutes a prediction or projection of future events, future markets behaviour, investment advice or a recommendation to buy, sell or hold a security. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed.

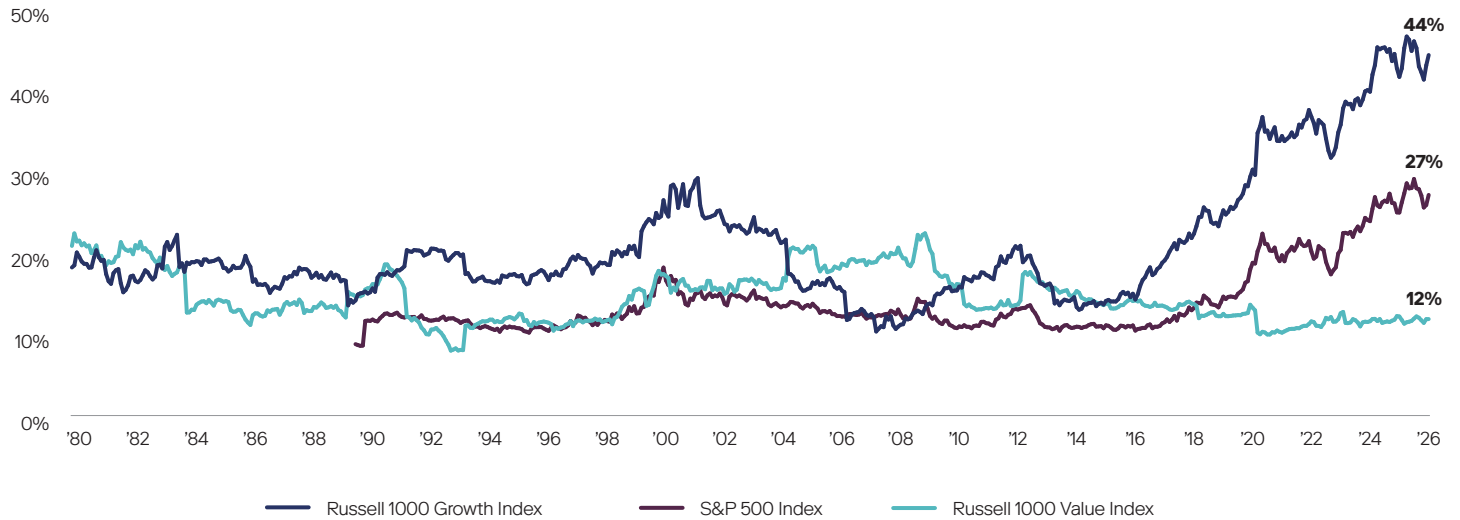
Second, history suggests that value stocks tend to outperform growth stocks during periods of rising interest rates and inflation. The intuition: Value companies are shorter-duration assets—they generate a greater portion of their profits sooner—and thus are less sensitive to fluctuations in rates; value stocks also tend to include more raw materials and energy companies, which are naturally geared to inflation.

Even as economic growth slowed last year, it remained at the high end of the Federal Reserve’s range. Should economic growth accelerate later this year, we expect inflation to tick up along with it. Furthermore, higher oil prices due to stalled traffic through the Strait have put U.S. rate cuts on hold; if inflation should rekindle in the second half of 2026, the Fed might even choose to hike, which could add relative support for value stocks.

Third, extreme overconcentration continues to deter diversification within popular large-cap benchmarks. As shown in figure 2, the largest five stocks in the Russell 1000 Growth Index and the S&P 500 Index represent roughly 44% and 27% of their respective benchmarks. Meanwhile, momentum has surged to 2009 levels, with the 10 largest stocks accounting for roughly 85% of the index’s year-to-date return, according to Wolfe Research. Should momentum begin to unwind (triggered, perhaps, by the reopening of the Strait), mega-cap growth names could be especially vulnerable, in our view. At these levels, we believe prudent risk management calls for increasing exposure to value.

FIGURE 2
Popular Growth Indices Are Still Overly Concentrated in a Few Large Names

Weight of the Largest Five Stocks Within the Index



Source: Neuberger research and FactSet, data as of April 30, 2026.

Finally, and not least, we believe potential AI-driven efficiencies may generally favor value over growth. Generally, we find that value companies produce less operating profit and carry more debt than their growth peers. All else equal, that means every dollar saved with AI could translate into larger earnings gains among value companies than among growth companies, as illustrated in figure 3.

FIGURE 3
AI Productivity Gains May Offer Relatively Greater Support to Value Stocks

	Value Company Pre-AI Improvement	Value Company Post-AI Improvement	Growth Company Pre-AI Improvement	Growth Company Post-AI Improvement
Revenue	\$100	\$100	\$100	\$100
Operating Profit	\$10	\$10	\$20	\$20
Savings From AI	\$0	+\$1	\$0	+\$1
EBIT	\$10	\$11	\$20	\$21
Interest Expense	\$5	\$5	\$0	\$0
EPS	\$5	\$6	\$20	\$21
% EPS Improvement		20%		5%

Source: Neuberger analysis. Hypothetical, simplified illustration; not representative of any company/index; not a forecast.

Avoiding the Passive Slouch Toward Growth

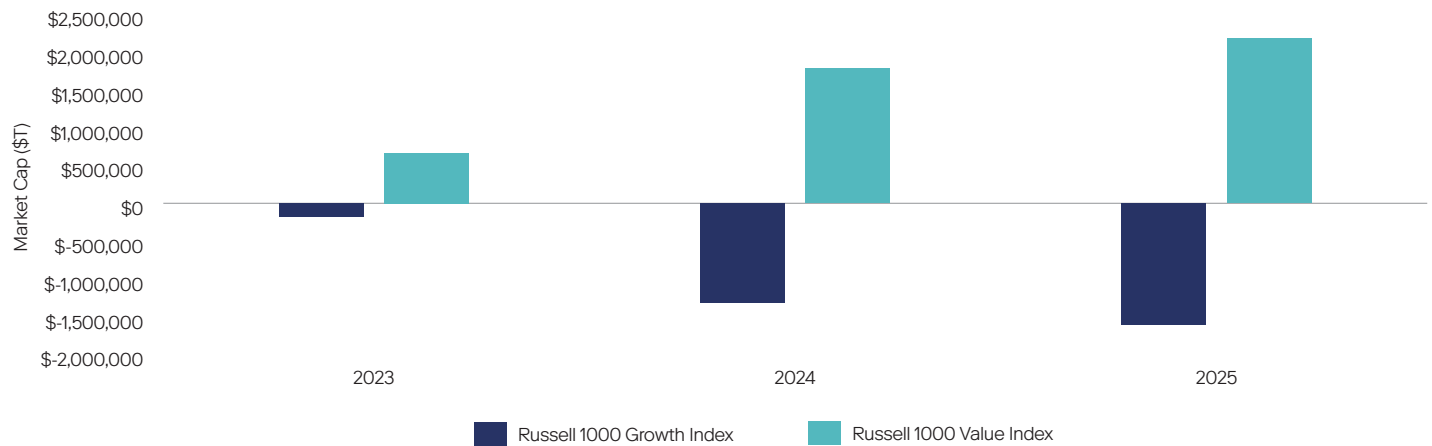
In recent years, significant amounts of capital have flowed into passively managed, market-cap-weighted investment funds. This trend has been a tailwind for mega-cap growth stocks that already carry the most weight in passive benchmarks and therefore receive a larger proportion of the flows, increasing investors' relative exposure to those big names over time.

Meanwhile, a significant amount of market cap has moved out of the growth benchmark and into the value benchmark: As shown in figure 4, index reshuffling has shifted a cumulative \$4.6 trillion in market cap from the Russell 1000 Growth Index to the Russell 1000 Value Index since 2023. With IPOs from SpaceX, Anthropic and OpenAI on the way, major indices appear poised to tip into even growthier—and riskier—territory.

FIGURE 4

Russell Index Reconstitutions Have Given Value Indices More of a Growth Tilt


2023 – 2025 Pre-/Post-Rebalance Changes



Source: Bloomberg. Nothing herein constitutes a prediction or projection of future events, future markets behavior, investment advice or a recommendation to buy, sell or hold a security. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed.

To us, these benchmark reconstitutions amount to *active* management decisions that have arbitrarily and mechanically ratcheted up passive investors' exposure to growth at the expense of optimal portfolio diversification. For value managers, the size of the additions being made in the next rebalance are hard to ignore and may require some level of accommodation while maintaining a determined focus on managing risk.

Against this historic backdrop, we believe the next leg of the value cycle will instead call for *true* active portfolio construction, driven by a consistent selection process and rigorous focus on both valuation and risk management.



This material is provided for informational purposes only and nothing herein constitutes investment, legal, accounting or tax advice. This material is general in nature and is not directed to any category of investors and should not be regarded as individualized, a recommendation, investment advice or a suggestion to engage in or refrain from any investment-related course of action. Investment decisions and the appropriateness of this material should be made based on an investor's individual objectives and circumstances and in consultation with his or her advisors. Information is obtained from sources deemed reliable, but there is no representation or warranty as to its accuracy, completeness or reliability. All information is current as of the date of this material and is subject to change without notice. Any views or opinions expressed may not reflect those of the firm as a whole. Neuberger Berman products and services may not be available in all jurisdictions or to all client types. Investing entails risks, including possible loss of principal. Indexes are unmanaged and are not available for direct investment. **Past performance is no guarantee of future results.**

The information in this material may contain projections, market outlooks or other forward-looking statements regarding future events, including economic, asset class and market outlooks or expectations, and is only current as of the date indicated. There is no assurance that such events, outlook and expectations will be achieved, and actual results may be significantly different than that shown here. The duration and characteristics of past market/ economic cycles and market behavior, including any bull/bear markets, is no indication of the duration and characteristics of any current or future market/economic cycles or behavior. Information on historical observations about asset or sub-asset classes is not intended to represent or predict future events. **Historical trends do not imply, forecast or guarantee future results.** Information is based on current views and market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons.

Statements contained herein are based on current expectations, estimates, projections, opinions and/or beliefs of the Firm. This presentation contains "forward-looking" or statements which often can be identified by the use of forward-looking terminology such as "may," "will," "seek," "should," "expect," "anticipate," "project," "estimate," "intend," "continue," "target," "plan" or "believe" or the negatives thereof or other variations thereon or comparable terminology. Such information may include, among other things, projections, forecasts or estimates of cash flows, yields or return, scenario analyses and proposed or expected portfolio composition. Such forward-looking information is based upon certain assumptions about future events or conditions and is intended only to illustrate hypothetical results under those assumptions (not all of which are specified herein). Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon. Such statements are necessarily speculative in nature, as they are based on certain assumptions. It can be expected that some or all of the assumptions underlying such statements will not reflect actual conditions. Accordingly, there can be no assurance that any estimated projections, forecast or estimates will be realized or that the forward-looking statements will materialize. Due to various risks and uncertainties, including those set forth herein, actual events or results or the actual performance of any security referenced herein may differ materially from those reflected or contemplated in such forward-looking statements.

Index Definitions

The S&P 500 Index consists of 500 U.S. stocks chosen for market size, liquidity and industry group representation. It is a market value-weighted index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value.

The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with relatively higher price-to-book ratios, higher I/B/E/S forecast medium term (2-year) growth and higher sales per share historical growth (5 years).

The Russell 1000® Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium term (2-year) growth and lower sales per share historical growth (5 years).

The views expressed herein may include those of the Neuberger Berman Equity Research team. The views of the Equity Research team may not reflect the views of the firm as a whole, and Neuberger Berman advisers and portfolio managers may take contrary positions to the views of the Equity Research team. The Equity Research team's leading indicators and research models are based upon a variety of inputs, including markets surveys, market prices and government and economic data. The Equity Research team's views do not constitute a prediction or projection of future events or future market behavior. Discussions of any specific sectors and companies are for informational purposes only. This material is not intended as a formal research report and should not be relied upon as a basis for making an investment decision. The firm, its employees and advisory accounts may hold positions of any companies discussed. Specific securities identified and described do not represent all of the securities purchased, sold or recommended for advisory clients. It should not be assumed that any investments in securities, companies, sectors or markets identified and described were or will be profitable.

This material is being issued on a limited basis through various global subsidiaries and affiliates of Neuberger Berman Group LLC. Please visit www.nb.com/disclosure-global-communications for the specific entities and jurisdictional limitations and restrictions.

The "Neuberger" name and logo are service marks of Neuberger Berman Group LLC.

NEUBERGER

1290 Avenue of the Americas
New York, NY 10104-0001
neuberger.com