

# Beyond Value and Growth

*Why style timing is a trap – and why Australian equities need a more nuanced framework*

8 April 2026

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## Executive Summary

- Growth has had a remarkable run — but the recent software sell-off is a reminder that **style leadership can change quickly and without much warning.**
- **Style timing is a trap.** Cycles are real but unpredictable and being too early has the same effect as being wrong. For Australian investors, switching between managers also carries real frictions — tax, costs and client confidence.
- The conventional fix of **blending a value manager with a growth manager is increasingly broken in Australia.** Banks don't fit neatly into either category, yet banks have been one of the biggest contributors to ASX 200 returns over the past three years.
- **Value and growth are also too broad as categories.** The ASX 200 is a value skewed market, yet there is far more active capital chasing growth. What results is overcrowding in growth and not enough interest in value. In this environment, investors must be more discerning about what *types* of growth companies and value companies they are choosing as the differences within each style now matter as much as the gap between them.

**Our response:** a style aware approach that stays broadly neutral over a full cycle, supported by a deeper segmentation of the market into six distinct style groups to better understand how portfolios are exposed to style risk.

## Observation 1: Style Timing is a Trap

Growth investing has had a strong run over the past few years. Falling discount rates, capital-light business models, passive flows and the dominance of a handful of benchmark-heavy winners created an environment in which long-duration businesses were rewarded handsomely. More recently, however, stocks have begun to fall out of favour.

Higher interest rates have raised the hurdle for long-dated growth stories, and advances in AI have forced investors to ask harder questions about moats and pricing power. If AI makes some workflows cheaper to replicate, not every premium multiple deserves to remain premium.

That matters because, for many growth companies, **terminal value**<sup>1</sup> represents the majority of total valuation. When the market becomes less confident in those future profits, terminal values fall - and growth companies can fall quickly.

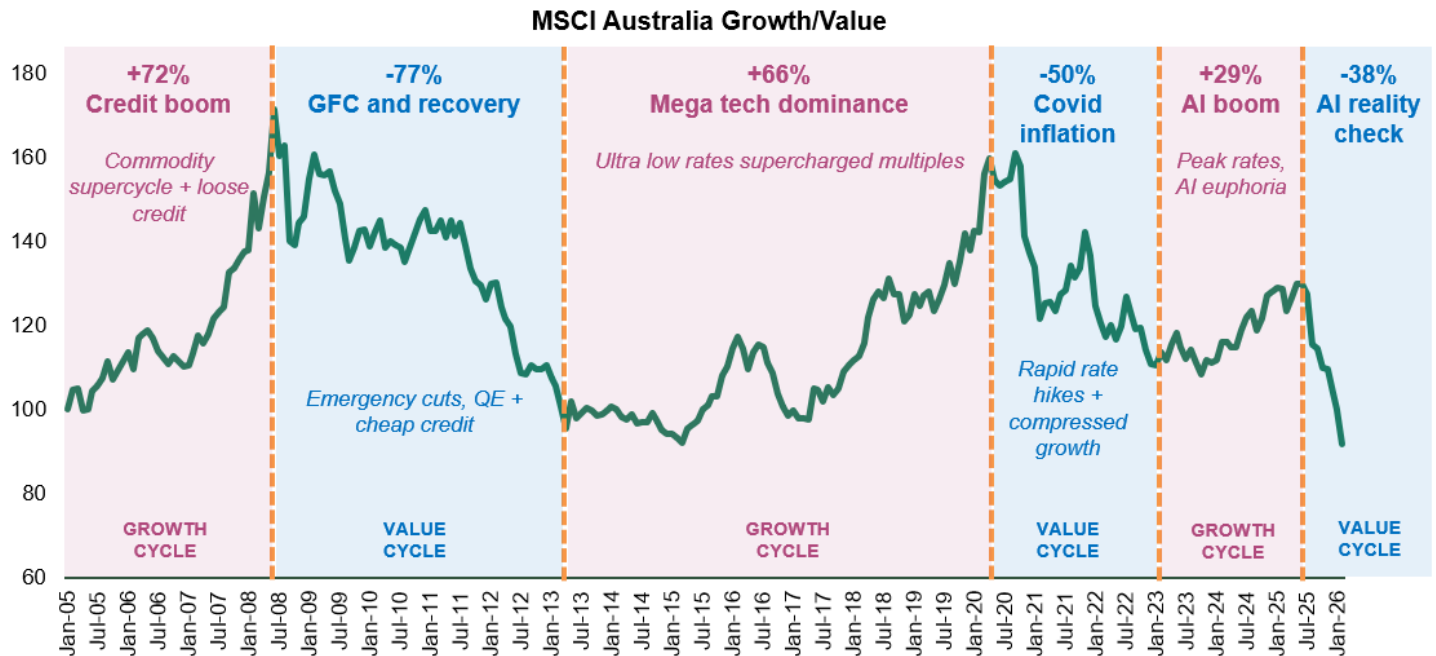
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**Terminal value** is the estimated worth of all a business's future cash flows beyond a defined forecast period, often stretching decades ahead. For high-growth companies, it can represent the majority of the total valuation.

## These switches have happened before – and are hard to call

This is not the first time style leadership has turned. Australian value and growth has always moved in cycles, but those cycles can be painful because the payoff often arrives in short, sharp bursts. Each rotation has had a different trigger - a credit boom, a financial crisis, an inflation shock, an AI narrative - which is precisely what makes them so hard to predict.

**Figure 1: The Australian market moves in distinct (yet hard to predict) value/growth cycles**



Source: FactSet, Firetrail, March 2026.

**Note – Interest rates are a common thread** across most of these style rotations. When rates rise, investors become less willing to pay today for profits that are years away — which hurts growth companies most, since their value is tied up in future earnings rather than what they're making now. Value companies, which tend to generate more of their profits in the near term, are less exposed to this effect. When rates fall, the dynamic reverses.

Despite this pattern being well understood, each rotation has had a different trigger and a different timeline — which is what makes them so hard to call in advance.

When it comes to timing these style cycles, being early can have much the same effect as being wrong. Even if the long-term thesis is eventually correct, the path can be uncomfortable. Not to mention that switching managers is not frictionless: tax consequences and transaction costs matter.

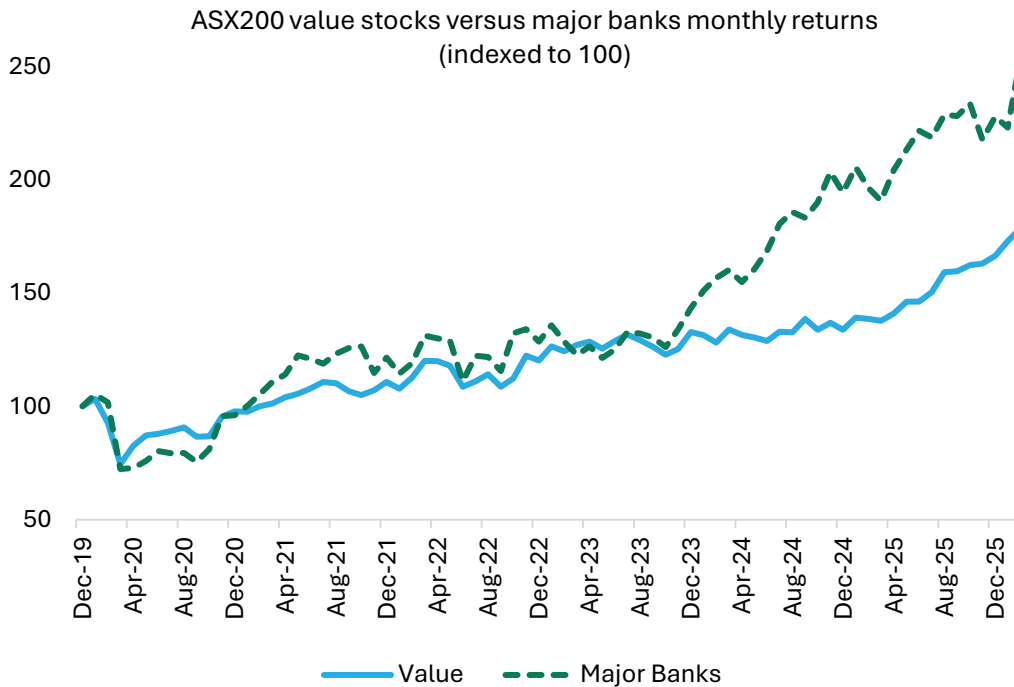
## Observation 2: The Old Framework is No Longer Enough

If style timing is a trap, the obvious answer is to blend a great value manager with a great growth manager and hope to capture the best of both worlds. That's been the approach of many asset allocators, but in our view this approach doesn't solve the problem. We believe that blending a value and a growth manager doesn't work in the current day Australian market for a couple of key reasons.

## Where do banks go?

Banks are too large and too influential in Australia to treat as an afterthought. Historically, they could sit comfortably inside value portfolios: mature franchises, modest growth, strong dividends and undemanding valuations. More recently, that relationship has weakened and the banks have not performed in step with value stocks as they did in the past.

**Figure 2: Major banks have diverged from value stocks in recent years in the Aussie market**



Source: Bloomberg, Firetrail, March 2026.

### Why did banks diverge from value?

This is a complex topic in its own right, but in our view, the banks' divergence was caused by a combination of the growing weight of passive capital, the market increasing need for liquidity, and strong demand for income and fully franked dividends.

Major banks have re-rated strongly despite low structural growth and now often look too expensive to fit into value while still lacking the characteristics of growth businesses.

A true growth manager is unlikely to invest in banks as there is not enough earnings growth to warrant the multiple. A true value manager is also unlikely to invest as they are no longer cheap. Both camps end up structurally underweight banks relative to the index.

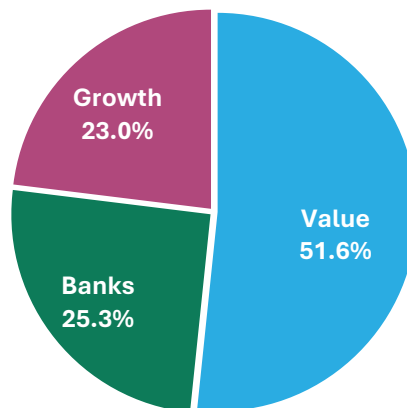
The outcome has been unfavourable for both styles: both value and growth managers have missed one of the biggest contributors to ASX 200 returns over the past three years. A blend of the two managers has faced exactly the same drag simultaneously. That is not bad luck. It is a structural gap in the framework.

### The buckets value/growth buckets are now too broad

Australia is not the US. It remains a cyclical, value-skewed market, with value stocks taking up over 50% of the index while major banks take up another quarter of the index. Yet global market leadership over recent years has often been growth-led. This mismatch is important because it has meant that only ~30 cents in every active dollar has been chasing value stocks here in Australia (at least up until June last year). So, what that means is ~70% of active capital has been chasing less than a quarter of available opportunities in the index.

**Figure 3: The Australian market is value dominant, yet most active capital has been chasing growth**

ASX200 % Style Composition by Index Weights



Source: Bloomberg, Firetrail, March 2026

That imbalance creates two problems. First, too much money chasing too few opportunities has **inflated Australian growth valuations** well above comparable offshore peers. As that crowding reverses - which we are beginning to see - there is a meaningful imbalance to unwind.

Second, **cheap is not enough on the value side** as many active managers have largely abandoned this end of the market. Regardless of how cheap a stock is, if the market cannot see a catalyst for tangible earnings inflection in the short term, then the stock can just stay cheap or get cheaper.

That is why blending a value manager and a growth manager may seem logical in theory while still missing the real source of dispersion. With growth overcrowded and value underfollowed, a mechanical blend risks concentrating capital in the weakest parts of crowded growth names at the expensive end, and value stocks without a catalyst at the other. Neither necessarily solves for banks, for cyclical growers, or for the difference between a genuine inflection story and a stock that is simply optically cheap.

## Case study: how has a 50/50 blend worked in practice?

We have taken a look at monthly post fee returns of the median Australian equities value managers and median Australian equities growth managers. The question is not whether these managers are good at their job — it is whether the conventional practice of blending the two styles actually solves the problem for investors.

Period	Cycle	Theme	ASX 200	Median Growth Manager	Median Value Manager	50/50 Blend	50/50 Blend vs Index	Annual Excess
Jan 06 – Jun 08	Growth	Credit Boom	21.2%	+17.2%	+14.5%	+15.8%	-5.4%	-2.2% p.a.
Jul 08 – Apr 13	Value	GFC & Recovery	23.9%	+30.0%*	+23.4%	+26.7%	+2.8%	+0.6% p.a.
May 13 – Sep 20	Growth	Mega-Tech Dominance	53.9%	+92.7%	+36.0%	+64.3%	+10.4%	+1.3% p.a.
Oct 20 – Dec 22	Value	COVID Inflation	31.8%	+13.6%	+37.0%	+25.3%	-6.6%	-3.0% p.a.
Jan 23 – Jun 25	Growth	AI Boom	33.3%	+29.2%	+20.1%	+24.7%	-8.7%	-3.6% p.a.
Jul 25 – Feb 26	Value	AI Reality Check	9.8%	-9.6%	+7.0%	-1.3%	-11.2%	-11.2%

Source: Morningstar March 2026. Past performance is not a reliable indicator of future performance.

Note: Returns reflect funds still operating today and that have reported data to Morningstar as at 28 Feb 2026. Survivorship bias means underperforming funds that closed across any period are excluded, which have flattered medians throughout.

\* The median growth manager outperforming the median value manager in Jul 08- Apr 13 may be explained by the more pronounced survivorship bias as a number of underperforming value and growth funds closed during this period.

The time periods listed in the table above represent style cycles that correspond with the chart in figure 1.

For much of the last two decades, the blend did what it was supposed to. Value managers and growth managers mostly outperformed during their respective favourable cycles and holding a blend smoothed the ride and resulted in great returns particularly from 2008-2022. But since after COVID the picture has deteriorated.

The culprit is structural. Separating stocks into value or growth no longer reflects how the Australian market actually works. Banks sit outside both style buckets yet have been among the strongest performers in the market. And with active capital crowded into growth and value largely abandoned, the dispersion within each style is now as large as the gap between them.

## Our response: style neutrality and more precise style segmentation

If the last few years have taught fund managers anything, it is that markets evolve faster than labels do. As equity investors, we are constantly looking for ways to improve and adapt to changing conditions. Those who fail to evolve their framework risk being left behind.

At Firetrail, these two observations on style have led us to two conclusions. The first is one we have held for a long time: **style timing is a trap, and the answer is to be style aware**. Over a full market cycle, we aim to be broadly style neutral, with our portfolio positions driven by bottom-up fundamental research rather than a top-down view on which style will win next. Intra-cycle we may have a modest style tilt depending on where the opportunities currently are, but we do not make standing structural bets on value or growth.

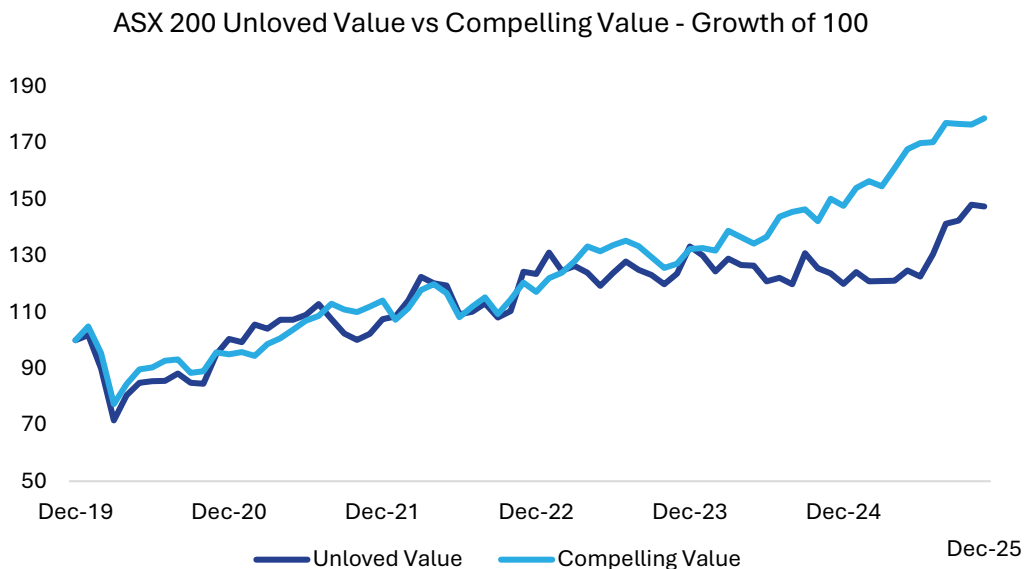
The second conclusion is a more recent adaptation: **the traditional value/growth binary needs a more precise framework to be useful in today’s market**. We implemented this change in late 2023, after observing banks diverging from value and increasing dispersion within both value and growth. In response, we now segment the market into six distinct groups.

## Value segments

<b>1. Unloved Value</b>	Deep value stocks with little market expectation of earnings improvement. Only considered investable when we see a clear inflection within 12 months, often with material expected upside.
<b>2. Compelling Value</b>	Companies that are earning below mid cycle but are executing well.

At the value end, cheap is not enough. Unloved Value only works when there is a credible earnings inflection in the next 6 to 12 months. Compelling Value is different: these are businesses are earning below mid-cycle, but still executing well. Like with major banks, we started to see noticeable divergence between these two subcategories from the end of 2023.

**Figure 4: Not all value stocks are made equal**



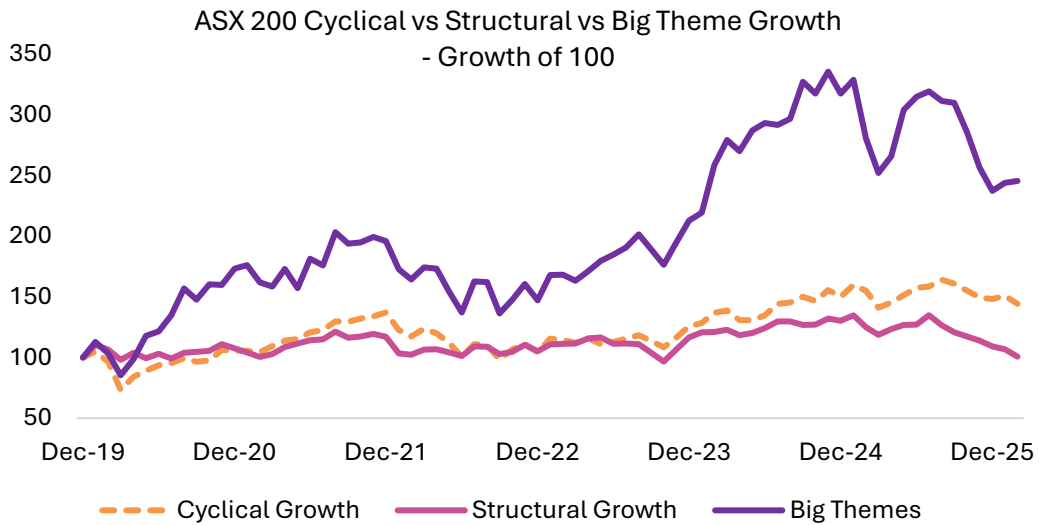
Source: Bloomberg, Firetrail, March 2026.

## Growth segments

<b>3. Cyclical Growth</b>	Cheaper growth companies tied to economic fluctuations. We invest selectively as share prices can be driven by cycles that may overwhelm execution.
<b>4. Structural Growth</b>	High quality growth companies that have little economic sensitivity. The upside may be more modest but earnings are more durable.
<b>5. Big Themes</b>	"Game changing" companies that we expect to have fast market share growth often with new ways of doing things. These companies tend to look expensive on short term valuation metrics.

On the growth side, we separate cyclical growers from structural growers, and we treat Big Themes as their own category because high valuations only make sense when the moat is real. Stocks that fall within the Big Themes category generally are the most tied to terminal value, which is why this category has suffered most with recent AI developments.

**Figure 5: ASX200 Cyclical vs Structural vs Big Theme Growth – Growth of 100**



Source: Bloomberg, Firetrail, March 2026.

## Major banks

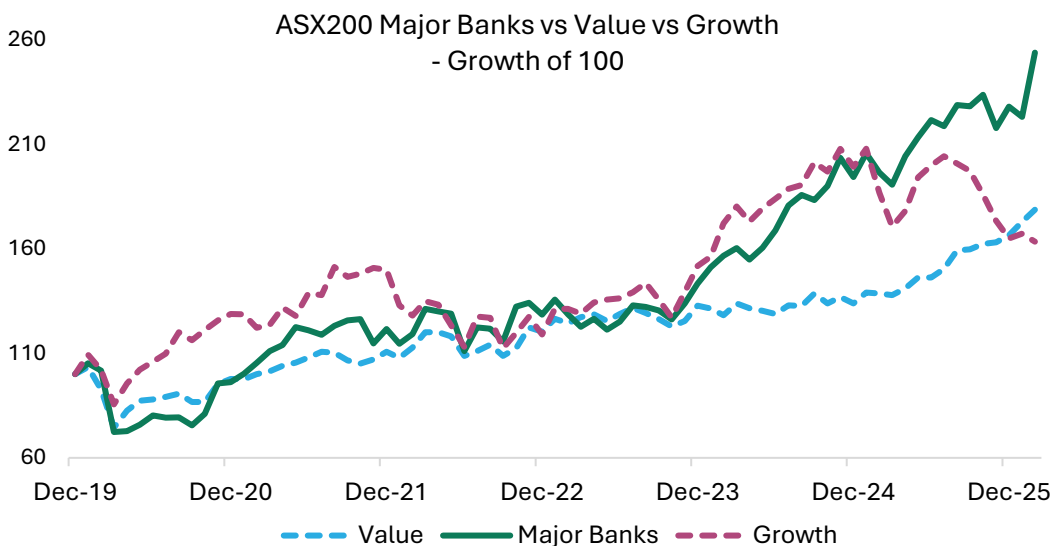
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### Major Banks

A stand-alone segment given their size and distinct economics in Australia.

Banks have their own segment for good reason. In Australia they are too expensive with comparatively low growth to force into either a value or a growth bucket. Treating them separately helps avoid false precision and, in our view, leads to a cleaner assessment of where risk and opportunity really sit.

**Figure 6: Major banks are their own style in Australia**



Source: Bloomberg, Firetrail, March 2026.

You can see in figures 4, 5 and 6 why these distinctions are so important. Not all value stocks are created equal and same goes for growth stocks. **The dispersion within each style is now as large as the gap between them.** A framework that collapses all of this into two buckets; or three once you account for banks; is leaving too much information on the table.

By being aware of where our portfolios sit across these style buckets, we can avoid unconscious style bias and let stock-specific factors drive returns. In practice, the framework acts as a discipline for portfolio construction and risk awareness - not as a substitute for fundamental stock picking.

## Conclusion

The recent software sell-off is a reminder that style leadership can change quickly and without much warning. But the real lesson goes deeper than one sector or one headline.

**Style timing is a trap.** Cycles are real, but they are hard to predict — and being too early carries the same cost as being wrong. The conventional fix of blending a value manager with a growth manager has not solved this problem. It has simply obscured it.

The Australian market has quietly changed around that framework. **Banks no longer fit neatly into either camp,** yet they have been one of the biggest contributors to ASX 200 returns over the past three years. And with active capital crowded into growth and value largely abandoned, the differences *within* each style now matter as much as the gap between them.

Our response is twofold. First, **stay style neutral over a full cycle** — let capital follow opportunity rather than a structural bet on which style wins next. Second, **replace the blunt value/growth binary with a more precise framework:** six distinct style segments that reflect how the Australian market actually behaves today.

The goal is not to pick a side. It is to build portfolios that can find opportunities across the whole market — and hold up through whatever regime comes next. In a market that is constantly evolving, active investors have no choice but to **adapt or be left behind.**