Q3 2021 | Putnam Large Cap Value Fund Q&A

Pendulum swings between style preferences

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Portfolio Manager
Industry since 1996

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Assistant Portfolio Manager
Industry since 2002

The fund outperformed its Russell 1000 Value Index benchmark for the third quarter and for the 1-, 3-, 5-, and 10-year periods ended September 30, 2021.

At the close of the quarter, we continued to see the pendulum swing between style preferences.

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Effective March 30, 2021, the fund's name changed from Putnam Equity Income Fund.

How has the fund performed?

Darren: While the fund's performance was flat for the third quarter, it outperformed the Russell 1000 Value Index, which posted a slight decline. Over the longer term, the fund outperformed its benchmark for the 1-, 3-, 5-, and 10-year periods ended September 30, 2021.

What happened to the rally in value stocks we discussed earlier this year?

Darren: Throughout the summer, we watched a significant value rally vanish almost as quickly as it began. We saw growth stocks begin to regain leadership almost to the day that the 10-year Treasury yield peaked in March. Concerns about rising interest rates contributed to the style rotation, but the ongoing pandemic also played a role. The spread of the Covid-19 Delta variant added to worries about the pace of economic recovery. At the close of the quarter, we continued to see the pendulum swing between style preferences. It hasn't helped that we have no precedent or a playbook for a global pandemic and investors are reacting to every bit of Covid-19 news.

Would you say the direction of interest rates played a key role in the rotation out of value stocks?

Lauren: The direction of interest rates almost always impacts the performance of value stocks. Modestly higher interest rates are typically a key ingredient for a durable value rally. We saw the recent rally begin to falter when an extraordinarily dovish Federal Reserve, describing inflation as "transitory," successfully managed inflation expectations down, bringing the 10-year Treasury yield down with them. Simple measures of valuation such as the price-to-book ratio saw their dramatic outperformance come to a halt — demonstrating the sensitivity between rates and value stocks. However, we view the current low-rate environment as an unnatural state of affairs, mostly driven by policy, Fed dovishness, and control of inflation expectations.

What is your current view on the potential in value stocks?

Lauren: In our view, investors are overlooking the fact that interest rates, as measured by the 10-year Treasury yield, are still considerably higher than they were when the value rally began late last year. However, today's generally higher rates — which should be good for value stocks — don't seem to matter to investors distracted by Covid-19 and lower expectations for economic growth.

We also believe investors are missing a compelling valuation gap. Value stocks remain inexpensive relative to growth stocks and inexpensive relative to their own fundamentals. Growth stocks, on the other hand, remain expensive by historical measures.

Darren: It's important to recognize that growth and value are not mutually exclusive. Regardless of where a stock begins in the style universe, the winners in a value portfolio are those that are underappreciated and undervalued. They are companies that are poised to exceed expectations for earnings and revenue growth, that are more disciplined in their capital expenditures, and that will return more capital to shareholders than anticipated. We remain focused on relative value — analyzing the valuation of companies compared with businesses in the same sector. We also seek to manage interest-rate risk by maintaining a mix of holdings with varying interest-rate sensitivity.

Putnam Large Cap Value Fund (PEIYX)

Annualized total return performance as of 9/30/21

	Class Y shares Inception 10/1/98	Russell 1000 Value Index
Last quarter	0.00%	–0.78%
1 year	36.98	35.01
3 years	12.10	10.07
5 years	13.58	10.94
10 years	14.88	13.51
Life of fund	10.59	—

Total expense ratio: 0.65%

Returns for periods of less than one year are not annualized.

Current performance may be lower or higher than the quoted past performance, which cannot guarantee future results. Share price, principal value, and return will vary, and you may have a gain or a loss when you sell your shares. Performance assumes reinvestment of distributions and does not account for taxes. For the most recent month-end performance, please visit putnam.com. Class Y shares before their inception are derived from the historical performance of class A shares (inception 6/15/77), which have not been adjusted for the lower expenses; had they, returns would have been higher. For a portion of the periods, this fund may have had expense limitations, without which returns would have been lower. Class Y shares are generally only available for corporate and institutional clients and have no initial sales charge.

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The views and opinions expressed here are those of the portfolio managers as of September 30, 2021, are subject to change with market conditions, and are not meant as investment advice.

Consider these risks before investing: Value stocks may fail to rebound, and the market may not favor value-style investing. Income provided by the fund may be reduced by changes in the dividend policies of, and the capital resources available at, the companies in which the fund invests. The value of investments in the fund's portfolio may fall or fail to rise over extended periods of time for a variety of reasons, including general economic, political, or financial market conditions; investor sentiment and market perceptions; government actions; geopolitical events or changes; and factors related to a specific issuer, geography, industry, or sector. These and other factors may lead to increased volatility and reduced liquidity in the fund's portfolio holdings.

Our investment techniques, analyses, and judgments may not produce the outcome we intend. The investments we select for the fund may not perform as well as other securities that we do not select for the fund. We, or the fund's other service providers, may experience disruptions or operating errors that could have a negative effect on the fund. You can lose money by investing in the fund.

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