

## Q2 2021 | Putnam Large Cap Value Fund Q&amp;A

# Value rally appears to be durable



**Darren A. Jaroch, CFA**  
Portfolio Manager  
Industry since 1996



**Lauren B. DeMore, CFA**  
Assistant Portfolio Manager  
Industry since 2002

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*The quick recovery trade — which favored almost any stock that was cheap — seems to have played out.*

*We are focused on businesses that gained durable strength as a result of the pandemic, but have not been fully rewarded by the market.*

## How has the fund performed?

**Darren:** The fund outperformed its Russell 1000 Value benchmark for the second quarter. From a longer-term perspective, the fund underperformed for the 1-year period but outperformed for the 3-, 5-, and 10-year periods ended June 30, 2021.

## What is your view on the rally in value stocks that began late last year?

**Darren:** The outperformance of value stocks has certainly been a hallmark of this year. The rally began in full force in November 2020, sparked by the announcement of impressive efficacy results in Pfizer-BioNTech's Covid-19 vaccine trials. Value stocks continued their strong run throughout the first half of 2021, fueled by the widespread distribution of vaccines, the reopening of economies, broadening global growth, and significant government stimulus.

What distinguished the rally recently, however, was an emphasis on cheapness over quality. This tends to happen with a recovery trade at the start of a new cycle. Enthusiasm over an economic rebound leads to a sharp style rotation, and investors flock to the cheapest stocks, often with little regard for company fundamentals.

In our view, that cheapness rally has evolved into a more durable value rally. True value rallies tend to be counted in quarters and years, not in weeks or months. That quick recovery trade — which favored almost any stock that was cheap — seems to have played out for the most part.

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

**You've described financials as "the epicenter of earnings uncertainty in 2020." What is your perspective on the sector now?**

**Lauren:** Financial stocks were among the best performers in the first half of 2021, especially the large banks that had struggled considerably early in the pandemic. We believe their outperformance is due to a few drivers. First, financial stocks remained very cheap relative to the broader market. Also, it appeared there would be far less permanent damage to their loan books as a result of the pandemic. In 2020, banks took an unprecedented level of reserves against their loan books in anticipation of loans that could go bad. Banks have also benefited from rising bond yields, which allow them to charge higher rates on mortgages and other types of loans.

**Where else are you finding opportunities?**

**Lauren:** We are focused on businesses that gained durable strength as a result of the pandemic, but have not been fully rewarded by the market, in our view. This includes retailers that expanded their market share and generated extra cash flow from increased sales in 2020, but whose long-term potential has not yet been recognized by most investors. Like many value investments, these holdings require a measure of patience, and we are maintaining our positions in them.

**As we enter the second half of 2021, what is your outlook?**

**Darren:** As the second quarter came to a close, the bullishness in the market seemed more tempered. Earnings growth comparisons to early 2020 will soon be gone, and we are facing some new headwinds, such as inflation and worries that the Federal Reserve might shift from its dovish stance.

The market is still adjusting to a post-Covid environment. Many businesses benefited from pandemic-induced changes. Some of those benefits will be lasting, but many are transitory. We are focused on those companies we believe have lasting advantages as well as fundamental strength and solid return potential over the long term. We are shifting out of stocks that have hit our valuation targets, and we are redeploying those assets into stocks that many investors have overlooked. We often find opportunities when the market is too myopically focused, or apathetic, or simply misinterpreting a company's fundamental value.

**Putnam Large Cap Value Fund (PEIYX)**

Annualized total return performance as of 6/30/21

|                            | <b>Class Y shares</b><br>Inception 10/1/98 | <b>Russell 1000</b><br><b>Value Index</b> |
|----------------------------|--|---|
| Last quarter               | 6.56%                                      | 5.21%                                     |
| 1 year                     | 42.89                                      | 43.68                                     |
| 3 years                    | 14.49                                      | 12.42                                     |
| 5 years                    | 14.50                                      | 11.87                                     |
| 10 years                   | 12.70                                      | 11.61                                     |
| Life of fund               | 10.65                                      | —   |
| 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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For informational purposes only. Not an investment recommendation.

The views and opinions expressed here are those of the portfolio managers as of June 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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