

A Potential New Era (Not Just for Bonds)

The Impact on Active vs. Passive Investments in Retirement Plan Lineups

PART 2

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In January 2025, our research, [A Potential New Era \(Not Just for Bonds\)](#), indicated that higher and more historically normal inflation and interest rate levels were impacting not only bond investing, but equity strategies, specifically in the small cap growth category.

A year later we've analyzed the opposite side of the equity style box with the large cap value (LCV) category, where the performance variance among active managers and versus the index has been notable for the last five years. This variance is driven in part by the transition from historically low interest rates to above-average levels due to material changes in inflation and inflation expectations, combined with investor uncertainty regarding geopolitical tensions.

Those overseeing retirement plans and institutional portfolios can make more informed choices with perspective on how LCV investing has evolved in a new era of interest rate policy and related dynamics and how this directly impacts capital markets and investment strategies.

It's important to delineate between lower interest rates and outlier, historically low levels experienced between 2009 and 2021 during recovery from the financial crisis and through the COVID-19 pandemic. While Federal Reserve governance and decisions are subject to change, the Fed could continue seeking monetary policy normalization and the ability to respond to the next potential bout of economic weakness without the use of a zero-interest rate policy (ZIRP) and large-scale quantitative easing (QE) that was used following the 2007-2009 financial crisis.

As noted in our [January 2025 research](#), many in today's workforce built a large portion of their retirement savings in a low-inflation, low-interest rate environment where the behavior of stock/bond markets were highly influenced by the noted ZIRP and QE policies. Certain investors continue to believe that central banks, including the Fed, are striving to reintroduce and maintain a cost-of-capital to markets that was not present for a long time. Central banks could be doing this to support rational "market clearing" prices not just with bonds, which are most directly impacted by interest rate movements, but in equity, credit and real estate markets, as noted by *Oberweis' Q3 2024 small-cap opportunities fund market commentary*.

Companies/stocks in the LCV category have historically provided relatively consistent earnings and cash flows compared to other equity segments, such as growth stocks, driven in part by less reliance on optimistic growth expectations. In 2025, there was relative inconsistency with the industry's expectations for future interest rate cuts, but the general consensus was for gradual declines for the foreseeable future. The geo-political uncertainty and conflicts in 2026 have directly impacted inflation and interest rate expectations. This could provide a compelling case for stocks that have exhibited historical resilience, attractive relative valuations and that are potentially insulated from earnings downgrades or revisions in uncertain environments, per Newton *Large-Cap Value Investing: A Beacon of Stability*.

TruePlan's annual active vs. passive research, [Active vs. passive investing: What the 2025 historical data indicate](#), shows that active management in the LCV category versus the large cap growth and blend categories (LCG and LCB) is strong over the short, intermediate and long-term. Specifically, a much higher percentage of active LCV funds outperform the Russell 1000 Value Index than the percentage of active LCG and LCB funds that outperform the Russell 1000 Growth and Russell 1000 Indexes (all indexes mentioned indicate total return, price appreciation and reinvestment of dividends. See last page for definition).

LCG stocks often tend to be large return compounders over time, meaning investors have benefited from simply holding such stocks and letting the earnings, reinvestment and stock price appreciation grow over time without trying to size or actively trade positions. We believe this is conducive to using passive funds in LCG to attain low-cost beta (market sensitivity). The concentration in the Russell 1000 Growth Index has made it difficult for active managers to outperform, as even slight underweighting to large benchmark holdings can lead to higher tracking error and underperformance. For example, approximately 58% of the Russell 1000 Growth Index consists of the 10 largest stocks in the index versus about 19% for the largest 10 stocks in Russell 1000 Value Index (Source: Ycharts Inc.).

Performance of stocks in the LCV category tend to be relatively choppy and can have material moves based on shorter-term catalysts over one to two years that may provide opportunities to adjust sizing and use effective trading in a highly liquid part of the stock market. Tactical trading or timing the stock market with valuation and other data points is not necessarily needed or recommended, but valuations can be leveraged by analysts and portfolio managers to get a firmer grasp of company/stock-specific factors in a broader context.

A combination of historical and forward-looking analyses can help identify inflection points where meaningful stock price appreciation (or depreciation) can occur. Increasing and decreasing position sizes as business conditions improve or deteriorate for specific companies and sectors can incrementally add value and compound over time by identifying "value-with-a-catalyst" or "business momentum." The catalysts vary across sectors but can include how competitor businesses may

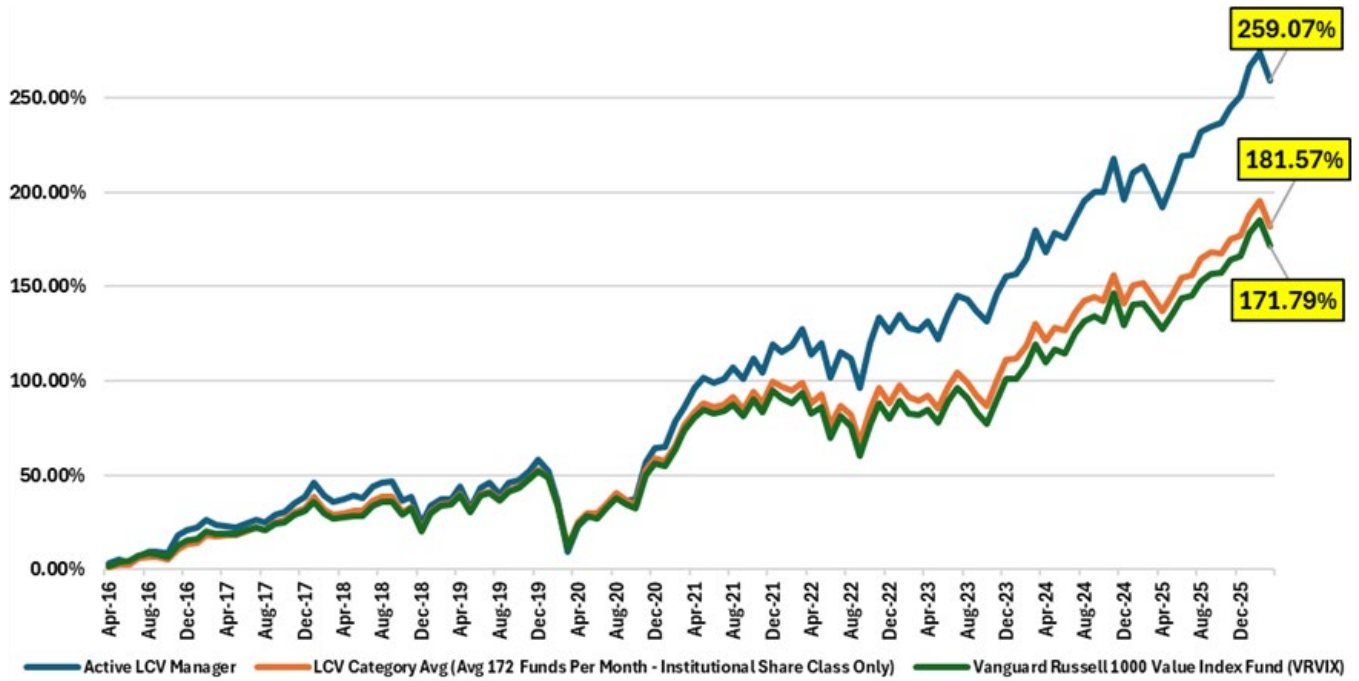
impact a company's market share, and as a result, the potential performance of a company's stock.

Related examples include the insurance industry, in which fund managers increased exposure to personal and reinsurance providers while limiting exposure to commercial insurers. The healthcare sector, and specifically businesses involved in medical devices, experienced positive catalysts/momentum with a pickup in elective surgeries that had severely declined in 2020. These companies' equity valuations can take considerable time to fully recover from such delays, creating a crucial combination of price value with a catalyst. In this case the catalyst was the COVID-19 vaccine and relative normalcy returning in 2021. In more recent periods, fund managers have also been deliberate to position sizing and overall exposure to highly cyclical sectors like industrials and materials.

Investor skepticism, particularly in the healthcare sector, can create opportunities for fund managers to be nimble and buy into extreme, irrational price action. Examples include biotech/pharma, a sub-sector where investors' behavioral tendencies of impatience or anxiety can create potential opportunities for more seasoned, forward-looking and opportunistic active fund managers. Pharmaceutical stocks prices can decline sharply due to large declines in announced earnings per share, among other factors. As a hypothetical example, experienced, well-read investors can realize that while earnings materially declined it was a positive earnings surprise because the decline was much less than forecasted. Said differently, dedicated active LCV managers can play offense (buy low) while others are selling to reduce exposure and focus elsewhere where they have more clarity and industry/company-specific expertise.

Whether you're a long-term investor or looking for better relative value in the stock market in the shorter term, you can make a compelling case for stocks that have exhibited historical resilience, attractive relative valuations and that are potentially insulated from earnings downgrades or revisions in uncertain environments. Those overseeing retirement plans or institutional portfolios can make informed choices with perspective on how LCV investing has evolved in a new era of interest rate policy and related dynamics, and the impact on capital markets and a variety of investment strategies.

Relationship between Cumulative Returns and Inflation (Active vs. passive | 10 years ending March 2026)



Source: Ycharts Inc.

Inflation prior 12 months (Monthly data points | 10 years ending March 2026)



Source: Ycharts Inc.

Return data is net of fees – Ycharts Inc. for fund returns and inflation (CPI). Past performance is not a guarantee of future returns.

“LCV Category Average” is the cumulative return from the average monthly returns of all funds in the category (avg. of 172 funds per month); one share class per fund (Institutional). *“Active LCV Manager”* is a fund with TruePlan client assets since April 2023. *“VRVIX”* is a passive index fund with a 0.05% expense ratio. It seeks to track the performance of the Russell 1000® Value Index that measures the investment return of large-capitalization value stocks in the United States. The fund advisor employs an indexing investment approach designed to track the performance of the Russell 1000® Value Index. The index is designed to measure the performance of large-capitalization value stocks in the United States. The Advisor attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the index, holding each stock in approximately the same proportion as its weighting in the index.

The Consumer Price Index is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Indexes are available for the U.S. and various geographic areas. Average price data for select utility, automotive fuel and food items are also available.

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