



Morningstar Valuation Indexes

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Shaped by the forward-looking insights of Morningstar's equity analysts, the Morningstar Valuation Indexes are designed to target stocks with attractive valuations. Unconstrained by traditional style classifications, these indexes can move wherever the most attractive valuations are found in the parent benchmark. This unique approach combines fundamental insights with objective, transparent portfolio construction.

Forward-looking valuations

Morningstar's equity analysts assign fair value estimates to each company based on a three-stage discounted cash flow model that incorporates their in-depth knowledge and expectations for future growth. This forward-looking valuation assessment reflects long-term cash flow forecasts, which many traditional valuation metrics, like price/earnings, may not be as well-equipped to capture.

Portfolio construction

The Morningstar Valuation Indexes derive their constituents from the Morningstar All Cap Target Market Exposure Indexes, which cover 99% of the investable global equity market. To be eligible for inclusion, constituents from the parent index must be assigned a fair value estimate by the Morningstar Equity Research team.

Eligible stocks are ranked in descending order by their price/fair value ratio and the cheapest third are targeted for inclusion. Existing constituents remain in the index as long as they rank in the lowest 67%. To mitigate risk, securities that are not already part of the index are not eligible to be added if their total return momentum over the past 12 month ranks in the bottom 20% of the parent index. This is designed to reduce exposure to stocks with weak or deteriorating fundamentals and high risk. The momentum screen is not applied to existing index constituents to mitigate turnover.

The indexes are weighted by float-adjusted market capitalization, with caps to improve diversification. Individual constituent weights are capped at 10% and the sum of those with weights greater than 5% cannot exceed 40% when the index is rebalanced.

Reconstitution

The indexes are reconstituted and rebalanced quarterly after the close of the third Friday of March, June, September, and December.

Construction process



About Morningstar Indexes

Morningstar Indexes was built to keep up with the evolving needs of investors—and to be a leading-edge advocate for them. Our rich heritage as a transparent, investor-focused leader in data and research uniquely equips us to support individuals, institutions, wealth managers and advisors in navigating investment opportunities across major asset classes, styles and strategies. From traditional benchmarks and unique IP-driven indexes, to index design, calculation and distribution services, our solutions span an investment landscape as diverse as investors themselves.

Please visit indexes.morningstar.com for more information.