

Value gains traction amid rising interest rates

March 2021

Research Signals

Investors remain optimistic given an improved economic outlook amid accelerating vaccinations, supported by fiscal and monetary stimulus as well as a 10-year high in the J.P.Morgan Global Manufacturing PMI. However, rising inflation expectations and US Treasury yields, which logged their highest quarterly gain since December 2016, put pressure on growth stocks, reinforcing the value trade (Table 1).

- US: Forward 12-M EPS-to-Enterprise Value posted double-digit spreads across large and small caps, with the former group's performance unsurpassed since April 2002
- Developed Europe: Rational Decay Alpha remained the weakest performing Price Momentum measure for a second consecutive month
- Developed Pacific: 2-Year Ahead EPS Growth was an underperforming signal across the region
- Emerging markets: Industry Relative TTM Dividend Yield recorded its first positive spread since May 2020

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Table 1

Global factor quantile return spread (%) performance snapshot, Mar 2021

Factor	Factor Group	US Large Cap	US Small Cap	Developed Europe	Developed Pacific ex Japan	Japan Standard Cap	Emerging Markets
Book-to-Market		6.69	10.21	8.07	6.11	7.66	2.04
Forward 12-M EPS-to-Enterprise Value	Deep Value	11.51	13.25	9.91	3.69	6.32	2.89
TTM EBITDA-to-Enterprise Value		8.83	10.99	8.81	2.06	4.68	1.92
TTM Free Cash Flow-to-Enterprise Value		3.75	10.13	4.16	3.81	0.51	1.15
Industry Relative Leading 4-QTRs EPS to Price	Relative Value	7.99	7.93	9.73	8.50	4.85	2.58
Industry Relative TTM Dividend Yield		3.81	-0.69	5.26	3.99	3.46	3.73
Fixed Assets Turnover Ratio	Management Quality	0.09	7.40	3.99	1.61	2.45	-0.81
Inventory Turnover Ratio		2.46	4.70	-2.83	-1.04	0.97	0.96
Net Operating Asset Turnover		4.40	6.73	3.27	0.19	1.24	0.52
Change in Accruals to Assets	Earnings Quality	-1.12	-0.69	-0.33	-0.02	-0.81	0.21
Change in TTM COGS vs. Inventory Level		8.43	5.89	4.14	2.72	1.69	1.34
Change in TTM Sales vs. Accounts Receivable		0.39	-0.42	-2.24	-1.82	0.55	-0.10
Working Capital Accruals		-1.97	-0.69	-1.87	-1.66	1.21	-0.68
1-yr Growth in TTM Free Cash Flow	Historical Growth	2.65	3.80	1.40	2.87	-0.76	0.07
Reinvestment Rate		4.29	8.20	2.75	0.83	2.42	-2.56
Average Monthly Trading Volume-to-Market Cap	Liquidity, Risk & Size	-1.64	-5.92	0.02	-5.50	3.69	2.56
60-Month Beta		0.50	0.65	-0.40	-0.97	-0.42	0.98
Asset Quality Index		-2.02	0.69	-0.93	0.61	-2.11	0.04
Operating Leverage		-1.69	0.69	-0.60	-2.04	-0.10	-1.00
Natural Logarithm of Market Capitalization		-1.36	4.03	-3.96	-3.37	2.51	2.10
2-Year Ahead EPS Growth	Earnings Momentum	0.87	-2.77	-1.04	-2.20	-2.46	-4.76
3-M Revision in FY2 EPS Forecasts		3.29	3.57	5.42	6.96	4.03	2.56
Real Earnings Surprise		3.75	2.62	1.91	-2.02	2.21	2.33
24-Month Value at Risk		0.47	2.68	-0.88	1.62	1.38	2.43
5-day Industry Relative Return	Price Momentum	-3.27	-3.53	-1.84	-2.92	-1.12	-2.66
Industry-adjusted 12-month Relative Price Strength		-5.33	-5.31	-2.12	-0.60	-0.95	-1.81
Rational Decay Alpha		-7.48	-6.69	-5.42	-4.42	0.33	1.57
Demand Supply Ratio	Short Sentiment	7.05	10.94	4.22	4.67	3.38	-2.05
Implied Loan Rate		5.06	6.44	1.57	3.13	4.60	0.21

Source: IHS Markit

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United States

US Large Cap

The US manufacturing sector improved in March at its second-strongest rate since data collection began in May 2007, with the manufacturing PMI posting at 59.1, up from 58.6 in February and just shy of January's survey high of 59.2. The headline figure was supported by a steep rise in new orders, while inflationary pressures intensified and output growth softened amid raw material shortages. Stocks finished the month and quarter higher, though technology shares struggled to keep up with the broader indexes on higher inflation expectations and borrowing costs.

Performance of value measures soared among US large caps in March (Table 2), at the expense of Price Momentum measures (Table 3). Time Weighted EBITDA/EV (17.77%) and 12-Month Active Return with 1-Month Lag (-10.60%) are two factors that captured the respective themes. Taking a closer look at their distributions of decile returns (Figure 1), we find that their significant double-digit spreads were particularly driven by underperformance to the most overvalued shares with the highest momentum.

Table 2

US Large Cap top decile return spread factor performance, Mar 2021

Factor	Decile spread (%)	Factor group
Time Weighted EBITDA/ EV	17.77	Deep Value
Leading 12 Month EBITDA/ EV	17.38	Deep Value
TTM Sales-to-Price	16.67	Deep Value
Time Weighted Cash Yield	16.48	Deep Value
Leading 12 Month Sales Yield	16.41	Deep Value
Time Weighted Sales Yield	16.27	Deep Value
TTM Sales-to-Enterprise Value	16.21	Deep Value
Edwards-Bell-Ohlson Value-to-Price	14.74	Deep Value
Quick Ratio	14.49	Liquidity, Risk & Size
Current Liabilities-to-Price	14.36	Liquidity, Risk & Size
Working Capital-to-Trailing 12-Month Sales	14.28	Management Quality
Time Weighted Earnings Yield	13.55	Deep Value
Normalized Earnings Yield	13.43	Deep Value
60-Day Residual Risk	13.26	Liquidity, Risk & Size
Cash & Equivalents-to-Current Liabilities	13.25	Liquidity, Risk & Size

Source: IHS Markit

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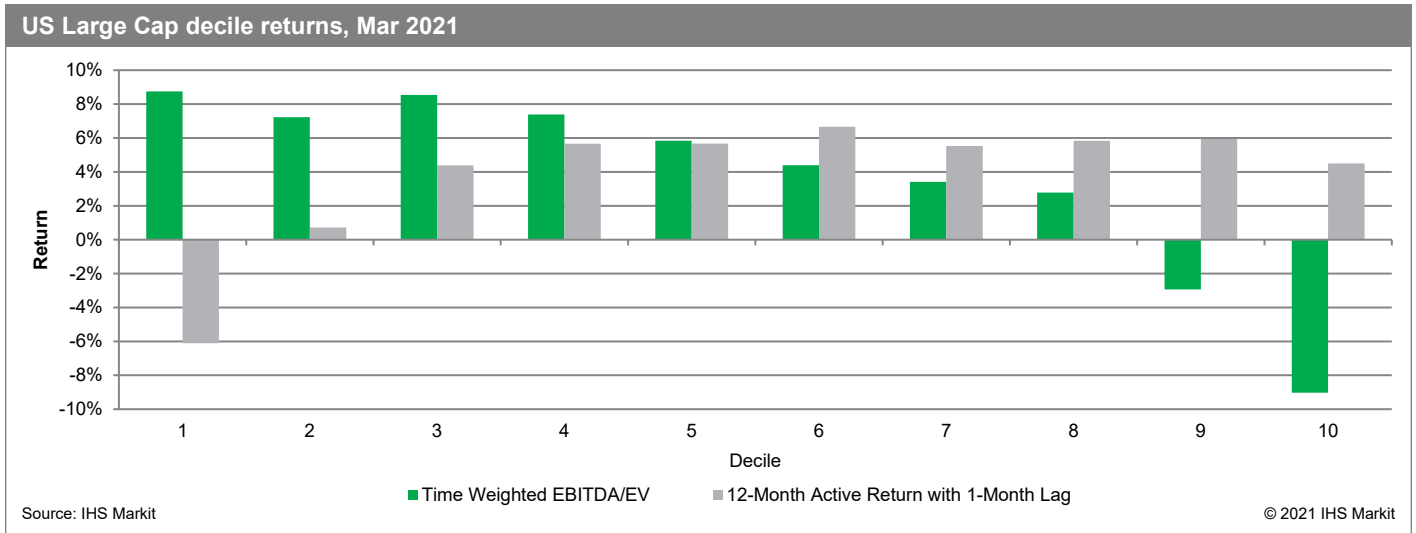
Table 3

US Large Cap bottom decile return spread factor performance, Mar 2021		
Factor	Decile spread (%)	Factor group
Growth Duration	-13.54	Liquidity, Risk & Size
TTM Capital Expenditures-to-Price	-10.69	Deep Value
12-Month Active Return with 1-month Lag	-10.60	Price Momentum
Fama-French Momentum	-10.58	Price Momentum
Debt to Market Cap	-10.09	Liquidity, Risk & Size
30-75 Week Stock Price Ratio	-10.09	Price Momentum
4-52 Week Price Oscillator	-9.79	Price Momentum
39-Week Return with 4-week Lag	-9.69	Price Momentum
3-yr Compound Annual Sales Growth	-9.50	Historical Growth
9-Month Active Return with 1-Month Lag	-9.15	Price Momentum

Source: IHS Markit

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Figure 1



Source: IHS Markit

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US Small Cap

The small cap factor leaderboard took on a similar theme to large caps in March (Table 4), while the weakest performers followed a different path (Table 5). At the upper end of the spectrum, Tobin q (19.99%), an alternative valuation measure comparing a firm’s market value to the replacement cost of its assets, turned in the highest spread with a 9.5 percentage point improvement in month-on-month performance (Figure 2), reaching a level not seen since November 2000. On the other hand, several quality measures trailed for the month, including Advertising Intensity (-10.78%) and Operating Liability Leverage (-9.51%).

Table 4

US Small Cap top decile return spread factor performance, Mar 2021		
Factor	Decile spread (%)	Factor group
Tobin q	19.99	Liquidity, Risk & Size
TTM Sales-to-Enterprise Value	18.12	Deep Value
Leading 12 Month Sales Yield	17.31	Deep Value
Price-to-Total Assets	17.14	Deep Value
Time Weighted Sales Yield	16.91	Deep Value
TTM Sales-to-Price	16.65	Deep Value
Current Liabilities-to-Price	16.07	Liquidity, Risk & Size
Cash & Equivalents-to-Current Liabilities	14.97	Liquidity, Risk & Size
3-yr MAD of TTM Net Income	14.28	Liquidity, Risk & Size
Natural Logarithm of TTM Sales	14.21	Liquidity, Risk & Size
Natural Logarithm of Total Assets	13.93	Liquidity, Risk & Size
Trailing 12-Month Sales to Invested Capital	13.90	Management Quality
EMEA Sales Exposure	13.80	Macro
Forward 12-M EPS-to-Enterprise Value	13.25	Deep Value
Cash-to-Sales	13.12	Management Quality

Source: IHS Markit

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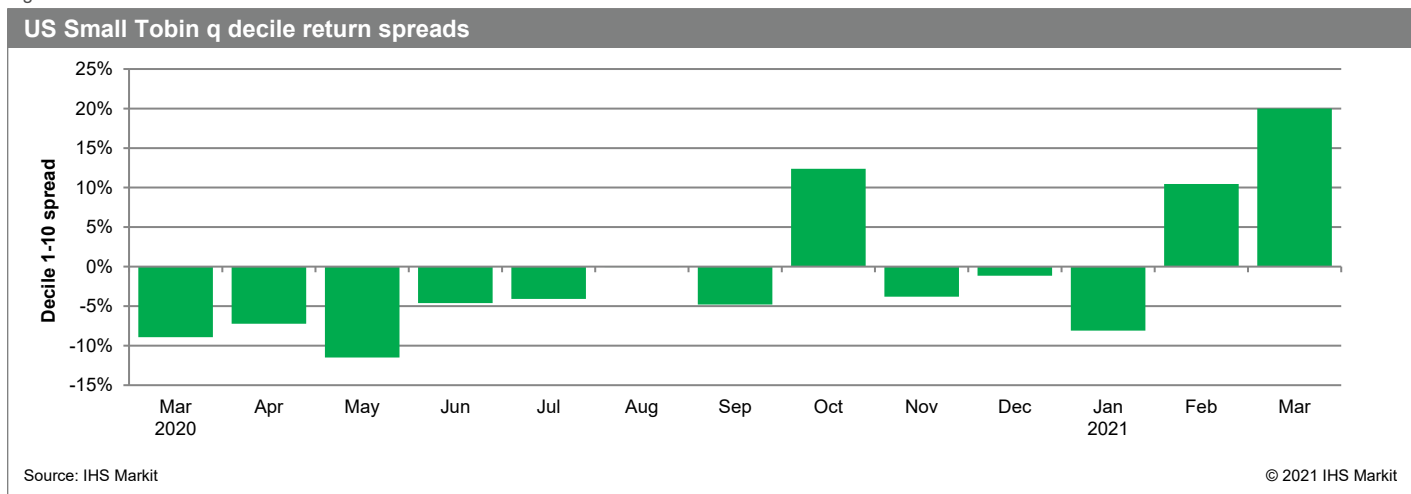
Table 5

US Small Cap bottom decile return spread factor performance, Mar 2021		
Factor	Decile spread (%)	Factor group
Advertising Intensity	-10.78	Management Quality
Product of TTM FCF Yield and Forward ROE	-9.95	Earnings Momentum
Debt to Market Cap	-9.86	Liquidity, Risk & Size
TTM Capital Expenditures-to-Price	-9.71	Deep Value
Operating Liability Leverage	-9.51	Management Quality
Flow Ratio	-8.88	Liquidity, Risk & Size
Inventory-to-Total Assets	-8.84	Management Quality
Attention Span Ratio	-8.29	Management Quality
Slope of 66 Week Price Trend Line	-7.87	Price Momentum
Cash to Enterprise Value	-7.11	Deep Value

Source: IHS Markit

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Figure 2



Source: IHS Markit

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Europe

The eurozone's manufacturing sector expanded at a survey record rate in March, with the PMI surging to 62.5, up from 57.9 in February, driven by record increases in output, new orders, exports and purchasing activity. Growth was broad-based, with Germany and the Netherlands leading the way, with Greece trailing the region with only modest growth. Stocks ended the month and quarter on a strong note, though concerns remain surrounding bond yields and coronavirus infection rates.

As with US large caps, the top (Table 6) and bottom (Table 7) performing factors in Developed Europe in March were dominated by value and Price Momentum measures. Time Weighted Earnings Yield (12.96%) was the top performing factor, while Rational Decay (-5.42%) trailed among Price Momentum measures. Debt to Market Cap (-6.72%) was another weak performer, where we find systematic trading favoring the most highly levered firms, as depicted by its nearly monotonic distribution of decile returns (Figure 3).

Table 6

Developed Europe top decile return spread factor performance, Mar 2021

Factor	Decile spread (%)	Factor group
Time Weighted Earnings Yield	12.96	Deep Value
Edwards-Bell-Ohlson Value-to-Price	11.83	Deep Value
Leading 12-Month Median Earnings Yield	10.50	Deep Value
Normalized Earnings Yield	10.33	Deep Value
Leading 12-Month Mean Earnings Yield	9.95	Deep Value
Time Weighted Cash Yield	9.91	Deep Value
Forward 12-M EPS-to-Enterprise Value	9.91	Deep Value
Time Weighted Book Yield	9.85	Deep Value
TTM Cash Flow-to-Price	9.82	Deep Value
Price-to-Total Assets	9.77	Deep Value
Industry Relative Leading 4-QTRs EPS to Price	9.73	Relative Value
Natural Logarithm of Total Assets (USD)	9.59	Liquidity, Risk & Size
Tobin q	9.31	Liquidity, Risk & Size
Time Weighted EBITDA/ EV	9.18	Deep Value
Leading 12 Month Sales Yield	9.03	Deep Value

Source: IHS Markit

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Table 7

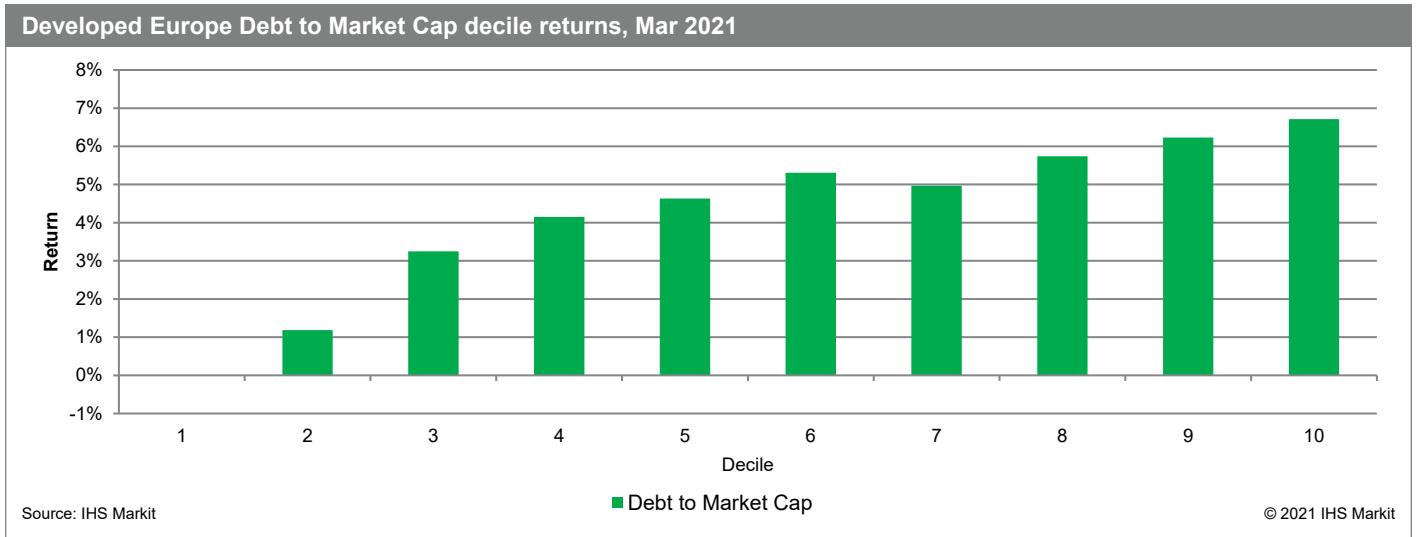
Developed Europe bottom decile return spread factor performance, Mar 2021

Factor	Decile spread (%)	Factor group
Flow Ratio	-7.37	Liquidity, Risk & Size
Debt to Market Cap	-6.72	Liquidity, Risk & Size
Rational Decay Alpha	-5.42	Price Momentum
39-Week Return with 4-week Lag	-5.32	Price Momentum
50-200 Day Stock Price Ratio	-5.13	Price Momentum
Fama-French Momentum	-4.86	Price Momentum
12-Month Active Return with 1-month Lag	-4.74	Price Momentum
30-75 Week Stock Price Ratio	-4.73	Price Momentum
Stock Illiquidity	-4.58	Liquidity, Risk & Size
Second Preceding 6-month Return	-4.20	Price Momentum

Source: IHS Markit

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Figure 3



Asia-Pacific

Manufacturing operating conditions continued to move in opposite directions in the two largest Asian economies of China and Japan in March. The Japanese manufacturing sector improved for a second month, with the PMI rising to 52.7 in March, from 51.4 in February, the strongest improvement since October 2018 on faster increases in output and new orders. In China, the manufacturing PMI slipped once again to 50.6 in March, from 50.9 in February, on mild rates of expansion in production and new orders. Likewise, equity markets in Japan eked out a positive return in March, while Chinese shares finished lower.

Valuation factors were also key drivers in developed Pacific markets in March. In markets outside Japan, Price-to-Book Return-on-Equity Combination (8.98%) was the most highly rewarded factor (Table 8), followed by Industry Relative Leading 4-QTRs EPS to Price (8.50%). At the opposite extreme, a handful of Earnings Momentum factors lagged for the month (Table 9), including 2-Year Ahead EPS Growth Percentage Change (-5.96%), whose annual low spread (Figure 4) marked its largest drawdown since March 2009.

In Japan, valuation measures continued to dominate the list of top performing factors (Table 10) for a fourth consecutive month, but in this case the top performers were specifically concentrated in the Deep Value group. Time Weighted Earnings Yield (9.68%) led the way, tripling the prior month's result and capturing the style's recent favorable trend following a tough year overall for value factors (Figure 5). Conversely, Historical Growth signals were among the weakest performers (Table 11), with 3-yr Compound Annual Operating Profit Margin (-5.43%) sitting at the tail of the performance list.

Table 8

Developed Pacific exJapan top decile return spread factor performance, Mar 2021		
Factor	Decile spread (%)	Factor group
Price-to-Book Return-on-Equity Combination	8.98	Deep Value
Industry Relative Leading 4-QTRs EPS to Price	8.50	Relative Value
TTM Sales-to-Price	7.96	Deep Value
Natural Logarithm of Total Assets	7.73	Liquidity, Risk & Size
Time Weighted Book Yield	7.69	Deep Value
Natural Logarithm of TTM Sales	7.62	Liquidity, Risk & Size
Leading 12 Month Book Yield	7.52	Deep Value
Leading 12 Month Sales Yield	7.46	Deep Value
Leading 12 Month Cash Yield	7.01	Deep Value
3-M Revision in FY2 EPS Forecasts	6.96	Earnings Momentum
Time Weighted Cash Yield	6.78	Deep Value
Leading 12-Month Mean Earnings Yield	6.61	Deep Value
Time Weighted Earnings Yield	6.54	Deep Value
Distress Measure	6.53	Liquidity, Risk & Size
Leading 12-Month Median Earnings Yield	6.42	Deep Value

Source: IHS Markit

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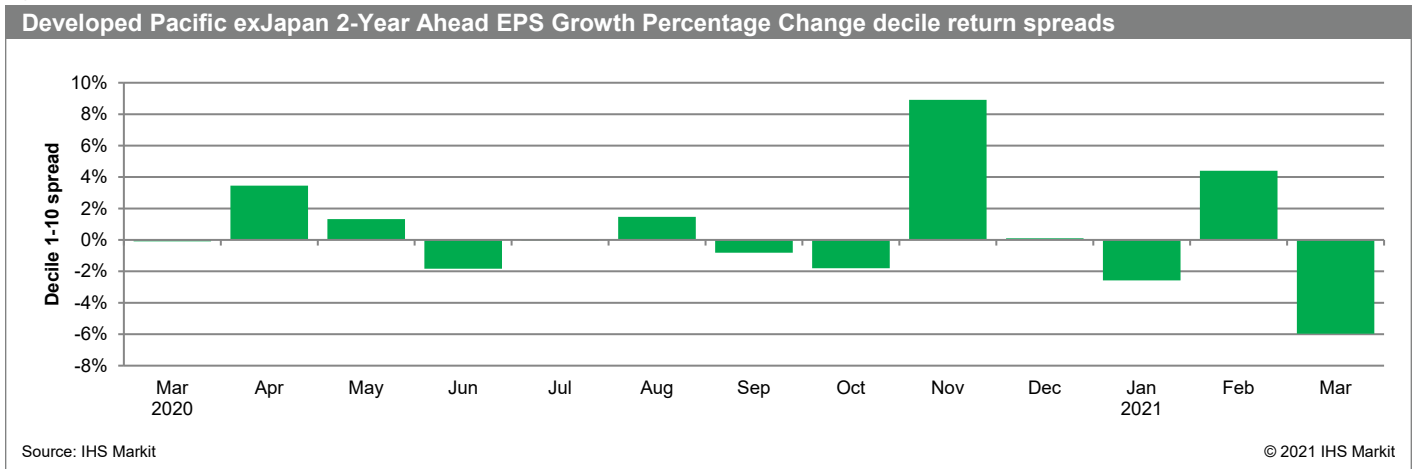
Table 9

Developed Pacific exJapan bottom decile return spread factor performance, Mar 2021		
Factor	Decile spread (%)	Factor group
Std Dev of FY2 EPS Estimates-to-Price	-5.99	Earnings Momentum
2-Year Ahead EPS Growth Percentage Change	-5.96	Earnings Momentum
Debt to Market Cap	-5.96	Liquidity, Risk & Size
Average Monthly Trading Volume-to-Market Cap	-5.50	Liquidity, Risk & Size
Market Volatility Sensitivity	-5.29	Macro
Net Debt to EBITDA	-4.99	Management Quality
Housing Starts Sensitivity	-4.78	Macro
Rational Decay Alpha	-4.42	Price Momentum
Short Concentration Ratio	-4.41	Short Sentiment
Std Dev of FY1 EPS Estimates-to-Price	-4.21	Earnings Momentum

Source: IHS Markit

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Figure 4



Source: IHS Markit

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Table 10

Japan Standard Cap top decile return spread factor performance, Mar 2021		
Factor	Decile spread (%)	Factor group
Time Weighted Earnings Yield	9.68	Deep Value
Normalized Earnings Yield	9.13	Deep Value
Edwards-Bell-Ohlson Value-to-Price	8.86	Deep Value
Price-to-Book Return-on-Equity Combination	8.77	Deep Value
TTM EBITDA-to-Price	8.68	Deep Value
Leading 12 Month Cash Yield	8.60	Deep Value
Time Weighted Cash Yield	8.47	Deep Value
TTM Cash Flow-to-Price	8.43	Deep Value
Time Weighted Book Yield	8.10	Deep Value
Price-to-Total Assets	7.86	Deep Value
TTM Pretax Income-to-Price	7.84	Deep Value
Leading 12-Month Median Earnings Yield	7.75	Deep Value
TTM Growth Flow-to-Price	7.73	Deep Value
Leading 12-Month Mean Earnings Yield	7.70	Deep Value
Book-to-Market	7.66	Deep Value

Source: IHS Markit

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Figure 5

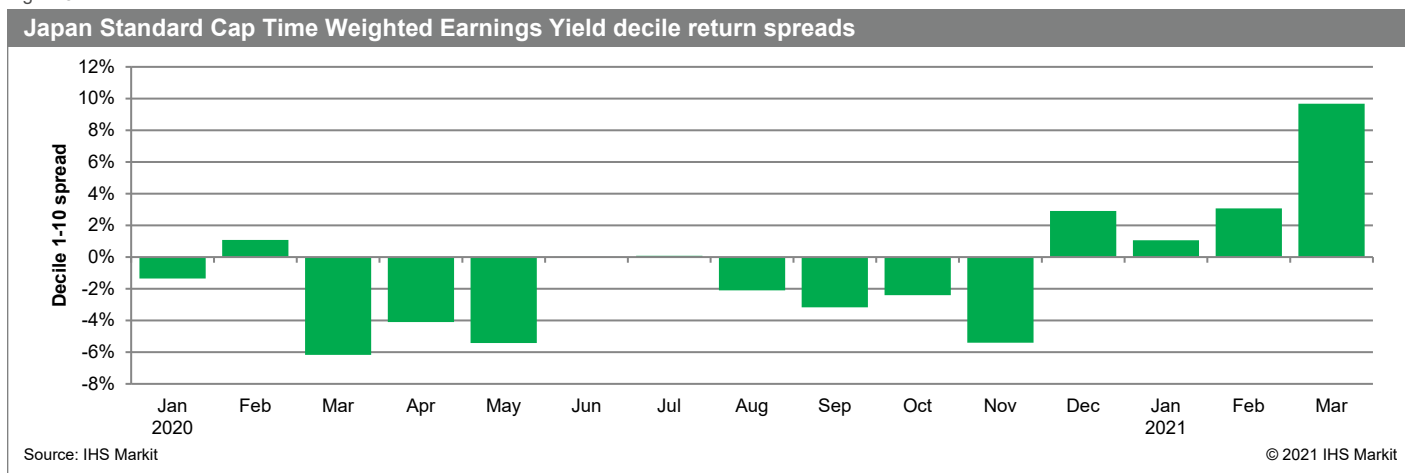


Table 11

Japan Standard Cap bottom decile return spread factor performance, Mar 2021		
Factor	Decile spread (%)	Factor group
3-yr Compound Annual Operating Profit Margin	-5.43	Historical Growth
Debt to Market Cap	-5.39	Liquidity, Risk & Size
3-yr Compound Annual ROIC Growth	-5.21	Historical Growth
3-yr Compound Annual TTM EPS after Extra Items-to-Price Growth Rate	-4.97	Historical Growth
Market Cap per Analyst	-4.16	Liquidity, Risk & Size
Demand Value Concentration	-3.73	Short Sentiment
Cash Flow Leverage	-3.71	Liquidity, Risk & Size
Operating Cash Flow to Assets	-3.69	Management Quality
Inventory-to-Total Assets	-3.58	Management Quality
3-yr Compound Annual Gross Margin Growth	-3.46	Historical Growth

Source: IHS Markit

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Emerging Markets

Lastly, we review top (Table 12) and bottom (Table 13) performing factors in emerging markets in March. The markets diverged once again from our other coverage universes with strong performance associated with several risk measures. 1-Month Realized Stock Return Volatility (8.07%) led the way with an 8.3 percentage point swing in month-on-month spread (Figure 6), representing a reversal in investor risk appetite which had been in place for most of the prior year. Other outperforming factors include 5-yr Sales Growth (4.24%), 52-Week High (3.73%) and Industry Relative TTM Dividend Yield (3.73%). At the same time, Earnings Momentum factors topped the laggard board, with 2-Year Ahead EPS Growth (-4.76%) at the furthest extreme.

Table 12

Emerging Markets top quintile return spread factor performance, Mar 2021		
Factor	Decile spread (%)	Factor group
5-yr Sales Growth	4.24	Historical Growth
1-Month Realized Stock Return Volatility	4.17	Liquidity, Risk & Size
60-Day Residual Risk	4.09	Liquidity, Risk & Size
1-Month Stock Return Interquartile Range	3.74	Liquidity, Risk & Size
52-Week High	3.73	Price Momentum
Industry Relative TTM Dividend Yield	3.73	Relative Value
Inflation Sensitivity	3.64	Macro
Averaged Last 6-M EPS Revisions for FY1	3.39	Earnings Momentum
3-M Revision in FY1 EPS Forecasts: Dispersion Relative	3.36	Earnings Momentum
24-Month Residual Return Variance	3.33	Price Momentum
Natural Logarithm of Market Capitalization (USD)	3.29	Liquidity, Risk & Size
Stock Return Volatility	3.27	Liquidity, Risk & Size
Leading 12 Month EBITDA/ EV	3.21	Deep Value
Distress Measure	3.21	Liquidity, Risk & Size
3-M Revision in FY2 EPS Forecasts: Dispersion Relative	3.17	Earnings Momentum

Source: IHS Markit

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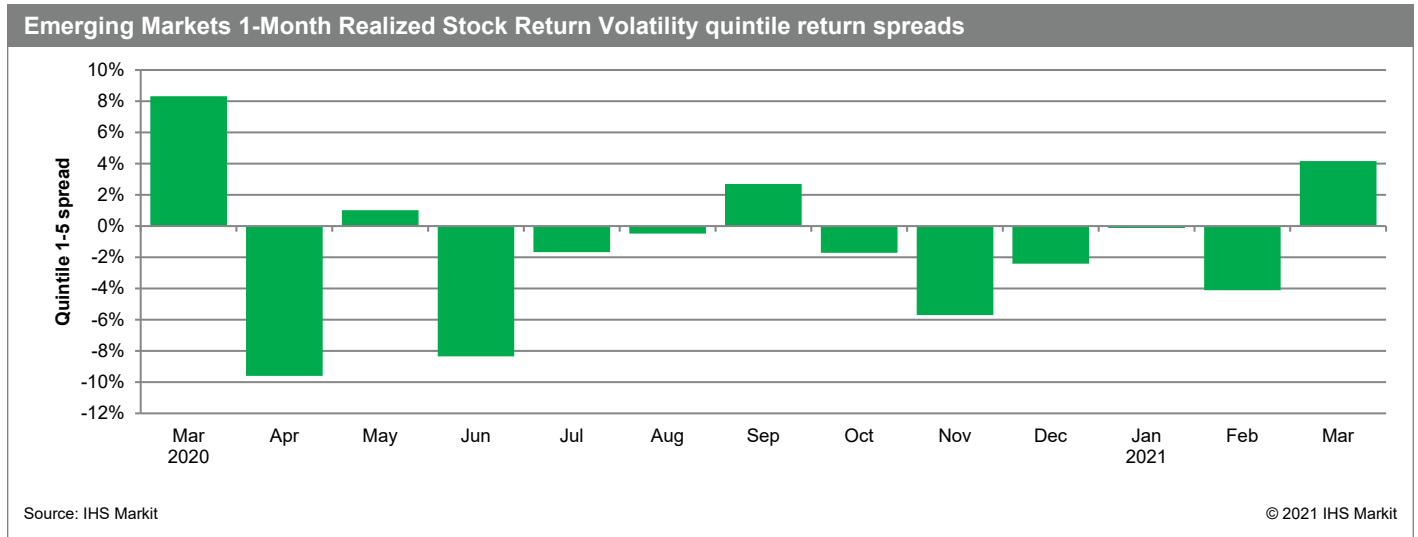
Table 13

Emerging Markets bottom quintile return spread factor performance, Mar 2021		
Factor	Decile spread (%)	Factor group
2-Year Ahead EPS Growth	-4.76	Earnings Momentum
2-Year Ahead EPS Growth Percentage Change	-4.39	Earnings Momentum
Operating Liability Leverage	-3.35	Management Quality
14 Day Relative Strength Index	-3.17	Price Momentum
Number of Analyst Coverage	-3.10	Liquidity, Risk & Size
5-day Industry Relative Return	-2.66	Price Momentum
Sustainable Growth Rate	-2.56	Historical Growth
Reinvestment Rate	-2.56	Historical Growth
Flow Ratio	-2.56	Liquidity, Risk & Size
1-Month Active Return	-2.49	Price Momentum

Source: IHS Markit

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Figure 6



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