

# Will value's run prove non-transitory?

May 2021

## Research Signals

Inflation fears remain the main theme in global markets, though major equity markets have extended their gains for the year. Investors are increasingly optimistic on an improving economic outlook, including that captured by a strong upswing in the J.P.Morgan Global Manufacturing PMI, led by solid expansions in the eurozone, UK and US. However, the survey continues to point towards increased inflationary pressures, as confirmed by the steepest rise in input costs for over a decade and record inflation of selling prices. While Fed officials maintain the view that inflation is largely driven by transitory factors, similar questions remain on the transitory nature of another key theme to markets surrounding the staying power of the current value cycle (Table 1).

- US: Strong performance was posted across value factors, including Book-to-Market for large caps and TTM Free Cash Flow-to-Enterprise Value for small caps
- Developed Europe: Forward 12-M EPS-to-Enterprise Value was a top performing Deep Value factor, while Rational Decay Alpha sat at the opposite extreme of Price Momentum factors
- Developed Pacific: In Japan, investors have consistently taken on higher risk, as confirmed by negative spreads to 60-Month Beta in 10 of the last 12 months
- Emerging markets: Investors demonstrated a renewed interest in large cap names, as gauged by Natural Logarithm of Market Capitalization, in addition to firms with high 2-Year Ahead EPS Growth

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Table 1

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

Factor	Factor Group	US Large Cap	US Small Cap	Developed Europe	Developed Pacific ex Japan	Japan Standard Cap	Emerging Markets
Book-to-Market		7.45	3.43	4.85	4.41	3.07	-0.69
Forward 12-M EPS-to-Enterprise Value	Deep Value	3.75	6.76	7.97	-0.78	0.14	-0.16
TTM EBITDA-to-Enterprise Value		4.03	5.25	3.66	-0.71	-1.30	0.55
TTM Free Cash Flow-to-Enterprise Value		1.41	6.63	1.54	0.67	-1.03	1.06
Industry Relative Leading 4-QTRs EPS to Price	Relative Value	1.59	3.83	6.65	2.72	0.25	0.45
Industry Relative TTM Dividend Yield		1.31	0.28	1.05	2.70	2.30	-3.06
Fixed Assets Turnover Ratio	Management Quality	-2.43	1.75	-2.41	-1.40	-2.30	0.90
Inventory Turnover Ratio		0.84	3.52	-3.94	-1.07	-3.26	0.61
Net Operating Asset Turnover		-0.25	4.23	1.20	0.05	-3.60	-2.17
Change in Accruals to Assets	Earnings Quality	-0.16	2.48	0.12	-1.19	0.61	3.23
Change in TTM COGS vs. Inventory Level		1.71	4.73	2.61	-1.37	1.50	-0.55
Change in TTM Sales vs. Accounts Receivable		-0.12	0.59	-0.91	-2.20	0.19	0.60
Working Capital Accruals		-1.21	0.28	0.49	1.94	1.01	0.34
1-yr Growth in TTM Free Cash Flow	Historical Growth	2.38	1.08	-0.56	-2.21	-0.16	0.79
Reinvestment Rate		-1.76	0.73	1.27	-4.13	-1.95	2.80
Average Monthly Trading Volume-to-Market Cap	Liquidity, Risk & Size	2.85	1.90	-2.28	-2.66	-1.07	-4.63
60-Month Beta		-4.75	-5.45	-0.15	-0.77	-3.38	-0.68
Asset Quality Index		-0.22	-4.13	-1.22	-2.50	-0.49	0.91
Operating Leverage		-1.29	-0.43	0.14	-2.55	-1.72	-0.36
Natural Logarithm of Market Capitalization		2.06	4.83	-1.88	-3.58	-1.15	-2.50
2-Year Ahead EPS Growth	Earnings Momentum	-1.10	4.38	0.71	0.89	2.31	5.64
3-M Revision in FY2 EPS Forecasts		3.08	4.11	2.38	-0.52	-1.23	-0.25
Real Earnings Surprise		3.48	1.78	-0.01	-3.08	-0.57	0.03
24-Month Value at Risk	Price Momentum	-3.30	-4.74	0.18	1.96	-1.28	-4.30
5-day Industry Relative Return		-1.74	3.41	-0.12	-3.50	-4.21	-0.33
Industry-adjusted 12-month Relative Price Strength		2.33	-1.76	-1.25	-0.62	-1.14	0.99
Rational Decay Alpha		-5.48	-4.34	-4.05	-2.26	-2.14	-2.55
Demand Supply Ratio	Short Sentiment	1.27	5.74	1.65	1.03	0.50	8.73
Implied Loan Rate		1.44	3.40	-0.02	2.08	1.70	6.95

Source: IHS Markit

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## United States

### US Large Cap

The US manufacturing sector improved substantially in May, with the manufacturing PMI accelerating to a fresh record high of 62.1, up from 60.5 in April. The upturn was supported by stronger expansions in output and new orders, though constraints on production capacity were exacerbated further as severe supply-chain disruptions led to a marked accumulation of backlogs of work and soaring cost pressures. However, equity investors shrugged off inflationary pressures as stocks posted their fourth consecutive month of gains on a positive outlook for the economic recovery.

Value measures continued their run among US large caps in May (Table 2), led by Leading 12 Month EBITDA/EV (9.82%). In fact, this factor has recorded positive spreads over eight consecutive months, with a cumulative spread of 40.8% over that period (Figure 1). Other top performing valuation factors include 36-Month Active Return with 1-Month Lag (9.38%) and Price-to-Book Return-on-Equity Combination (8.92%), while factors which trailed for the month (Table 3) include Std Dev of FY2 EPS Estimates-to-Price (-8.39%), Market Volatility Sensitivity (-7.28%) and 24-Month Active Return with 1-Month Lag (-6.92%).

Table 2

#### US Large Cap top decile return spread factor performance, May 2021

Factor	Decile spread (%)	Factor group
Leading 12 Month EBITDA/ EV	9.82	Deep Value
Time Weighted EBITDA/ EV	9.73	Deep Value
36-Month Active Return with 1-Month Lag	9.38	Price Momentum
Price-to-Book Return-on-Equity Combination	8.92	Deep Value
60-Month Alpha	8.73	Price Momentum
60-Month Active Return with 12-Month Lag	8.55	Price Momentum
Time Weighted Book Yield	8.52	Deep Value
Time Weighted Cash Yield	8.38	Deep Value
Price-to-Total Assets	8.15	Deep Value
TTM Sales-to-Price	8.03	Deep Value
36-Month Sharpe Ratio	8.02	Price Momentum
Leading 12 Month Sales Yield	7.96	Deep Value
Current Liabilities-to-Price	7.95	Liquidity, Risk & Size
60-Month Active Return with 1-Month Lag	7.84	Price Momentum
1-yr Change in Total Assets	7.77	Historical Growth

Source: IHS Markit

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Figure 1

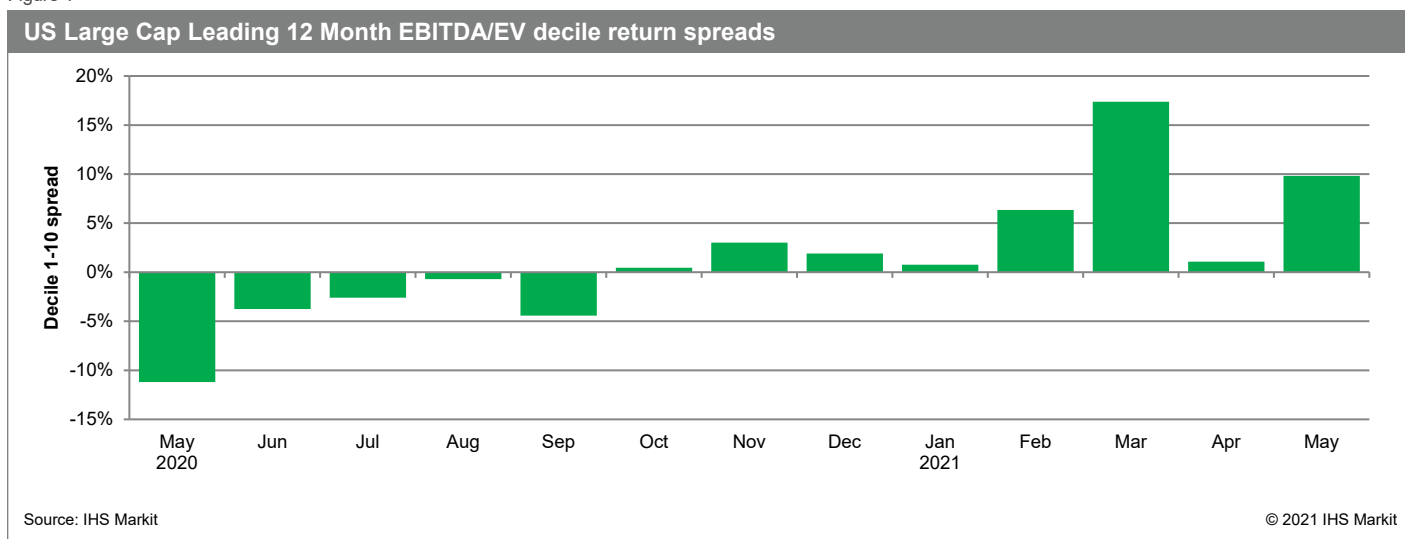


Table 3

Factor	Decile spread (%)	Factor group
Std Dev of FY2 EPS Estimates-to-Price	-8.39	Earnings Momentum
Growth Duration	-7.97	Liquidity, Risk & Size
Market Volatility Sensitivity	-7.28	Macro
Std Dev of FY1 EPS Estimates-to-Price	-7.06	Earnings Momentum
24-Month Active Return with 1-Month Lag	-6.92	Price Momentum
18-Month Active Return with 1-Month Lag	-6.19	Price Momentum
3-yr Compound Annual Sales Growth	-5.90	Historical Growth
Debt to Market Cap	-5.88	Liquidity, Risk & Size
Advertising Intensity	-5.78	Management Quality
Rational Decay Alpha	-5.48	Price Momentum

Source: IHS Markit © 2021 IHS Markit

## US Small Cap

Deep Value measures were also key drivers for small caps in May (Table 4), with robust double-digit spreads posted by factors such as Time Weighted EBITDA/EV (13.71%). At the opposite extreme, a handful of Historical Growth measures were among the weakest performers for the month (Table 5), including 3-yr Change in Price-adj TTM Cash Flow (-8.07%), which has extended its string of negative spreads to seven months (Figure 2).

Table 4

US Small Cap top decile return spread factor performance, May 2021		
Factor	Decile spread (%)	Factor group
Time Weighted EBITDA/ EV	13.71	Deep Value
Leading 12 Month EBITDA/ EV	13.45	Deep Value
Time Weighted Sales Yield	13.31	Deep Value
Leading 12 Month Sales Yield	13.31	Deep Value
Current Liabilities-to-Price	12.34	Liquidity, Risk & Size
TTM Sales-to-Price	12.12	Deep Value
Net Current Assets-to-Price	10.96	Deep Value
Net External Financing	10.74	Management Quality
TTM Sales-to-Enterprise Value	10.52	Deep Value
Operating Cash Flow Ratio	10.22	Liquidity, Risk & Size
Working Capital-to-Total Assets	10.20	Management Quality
Current Ratio	10.16	Liquidity, Risk & Size
Asset Composition	10.09	Liquidity, Risk & Size
TTM Operating Income to Enterprise Value	9.96	Deep Value
Market Leverage	9.92	Liquidity, Risk & Size

Source: IHS Markit

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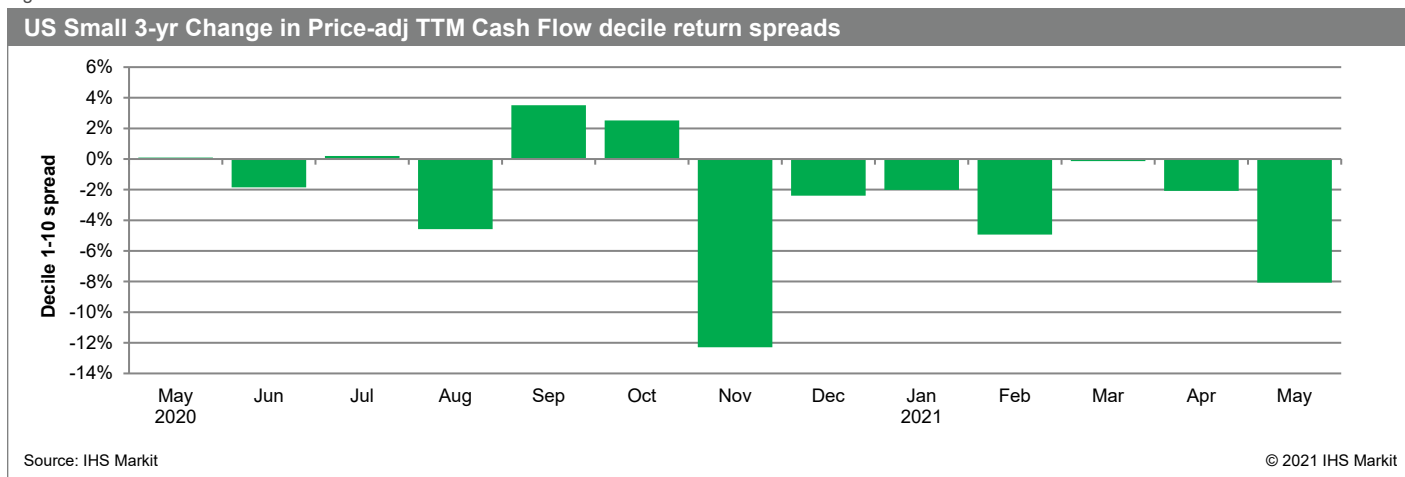
Table 5

US Small Cap bottom decile return spread factor performance, May 2021		
Factor	Decile spread (%)	Factor group
TTM Capital Expenditures-to-Price	-8.81	Deep Value
Debt to Market Cap	-8.65	Liquidity, Risk & Size
Advertising Intensity	-8.16	Management Quality
3-yr Change in Price-adj TTM Cash Flow	-8.07	Historical Growth
Yearly Change in Return on Assets	-7.83	Management Quality
3-yr Change in Price-adj TTM EPS	-7.70	Historical Growth
Yearly TTM Total Sales Growth Rate	-7.48	Historical Growth
3-yr Change in Assets-adj TTM Cash Flow	-7.47	Historical Growth
24-Month Active Return with 1-Month Lag	-7.46	Price Momentum
Unexpected Change in Accounts Payable	-6.67	Earnings Quality

Source: IHS Markit

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Figure 2



Source: IHS Markit

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## Europe

The eurozone's manufacturing sector posted another record rate of improvement in May, with the PMI rising to 63.1, from 62.9 in April, on rapid gains in new orders, while a record deterioration in vendor delivery times intensified inflationary pressures. Record highs or multi-year peaks were recorded in most countries, led by the Netherlands, with Germany the only nation to record slower growth. European equities were also boosted to a fourth consecutive monthly gain, on expectations for continued monetary and fiscal stimulus and progress on coronavirus vaccinations.

Top (Table 6) and bottom (Table 7) performing factors in Developed Europe in May were dominated by Deep Value and Price Momentum measures, respectively. Time Weighted Earnings Yield (9.41%) and Rational Decay Alpha (-4.05%) sat at the extremes of these respective themes, with the distribution of decile returns indicating systematic trading across both signals (Figure 3).

Table 6

Developed Europe top decile return spread factor performance, May 2021		
Factor	Decile spread (%)	Factor group
Time Weighted Earnings Yield	9.41	Deep Value
Leading 12-Month Median Earnings Yield	8.63	Deep Value
Leading 12-Month Mean Earnings Yield	8.58	Deep Value
Forward 12-M EPS-to-Enterprise Value	7.97	Deep Value
Edwards-Bell-Ohlson Value-to-Price	6.97	Deep Value
Leading 12 Month Book Yield	6.71	Deep Value
Time Weighted Book Yield	6.67	Deep Value
Industry Relative Leading 4-QTRs EPS to Price	6.65	Relative Value
Normalized Earnings Yield	6.56	Deep Value
Earnings Torpedo	5.83	Earnings Momentum
Natural Logarithm of Total Assets (USD)	5.79	Liquidity, Risk & Size
Leading 12 Month Cash Yield	5.72	Deep Value
Time Weighted Cash Yield	5.47	Deep Value
Cash & Equivalents-to-Current Liabilities	5.34	Liquidity, Risk & Size
Forward Return on Equity	5.29	Management Quality

Source: IHS Markit

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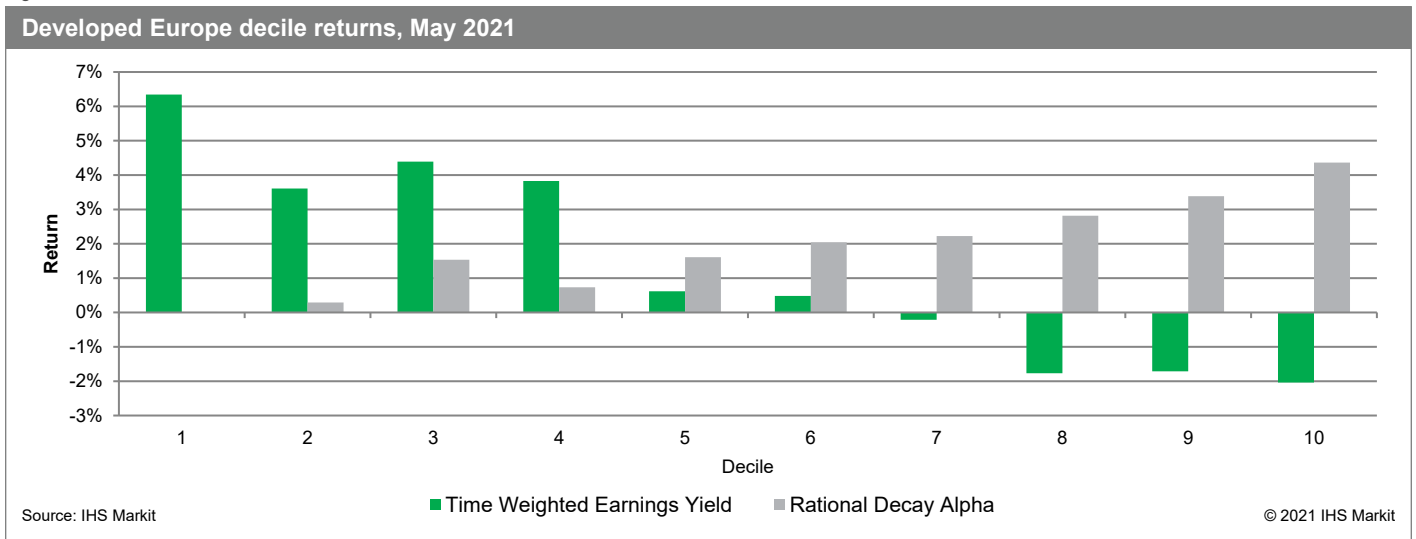
Table 7

Developed Europe bottom decile return spread factor performance, May 2021		
Factor	Decile spread (%)	Factor group
Flow Ratio	-6.09	Liquidity, Risk & Size
Debt to Market Cap	-5.60	Liquidity, Risk & Size
TTM Capital Expenditures-to-Price	-4.51	Deep Value
Rational Decay Alpha	-4.05	Price Momentum
Second Preceding 6-month Return	-3.94	Price Momentum
Inventory Turnover Ratio	-3.94	Management Quality
3-Month Active Return	-3.90	Price Momentum
2-Month Active Return	-3.80	Price Momentum
18-Month Active Return with 1-Month Lag	-3.72	Price Momentum
Yearly TTM Total Sales Growth Rate	-3.50	Historical Growth

Source: IHS Markit

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Figure 3



## Asia-Pacific

Manufacturing operating conditions remained in expansion territory in the two largest Asian economies of China and Japan in May, with higher input costs in both countries. The Japanese manufacturing sector was the stronger of the two, though the PMI edged down to 53.0 in May, from 53.6 in April, albeit with further expansions in output and new orders. In China, the manufacturing PMI rose mildly to 52.0 in May, from 51.9 in April, supported by stronger export sales. Stocks were flat in Japan and up in China for the month, as Asian shares try to catch up to US and European markets for the year.

In markets outside Japan, top performing factors in May (Table 8) covered a broad swath of themes, led by 3-yr Compound Annual Operating Profit Margin (5.80%), which demonstrated cyclicity in performance over the past year, including the recent 9.3 percentage point swing in month-on-month spread (Figure 4). Tobin q (5.24%), 52-Week High (4.68%) and Cash to Enterprise Value (4.49%) were other strong performers. The weakest performing factors (Table 9) also displayed diverse style representation, spanning themes such as 3-yr Growth in TTM Cash Flow (-5.84%), Year-over-Year Change in EBITDA-to-Debt (-5.49%) and Unexpected Change in Accounts Receivable (-5.38%).

In Japan, a clear concentration of style preference was also missing from the factor performance leader (Table 10) and laggard (Table 11) boards in May. For example, 26-Week Relative Price Strength (3.86%), a Price Momentum metric, sat next to Normalized Earnings Yield (3.80%), a Deep Value measure, on the list of top performers. We also draw attention to underperformance of 60-Month Beta (-3.38%), which has posted negative spreads for much of the prior year (Figure 5), indicating a persistence in investors' willingness to take on risk exposure.

Table 8

Developed Pacific exJapan top decile return spread factor performance, May 2021		
Factor	Decile spread (%)	Factor group
3-yr Compound Annual Operating Profit Margin	5.80	Historical Growth
Current Liabilities-to-Price	5.45	Liquidity, Risk & Size
Tobin q	5.24	Liquidity, Risk & Size
Altman Z Score	4.69	Liquidity, Risk & Size
52-Week High	4.68	Price Momentum
36-Month Active Return with 1-Month Lag	4.66	Price Momentum
Cash to Enterprise Value	4.49	Deep Value
Book-to-Market	4.41	Deep Value
Graham Number Fair Value Premium	4.31	Deep Value
Net Asset Value to Price	4.24	Deep Value
3-yr Compound Annual TTM EPS after Extra Items-to-Price Growth Rate	4.23	Historical Growth
Slope of 5-yr TTM EPS Trend Line	4.23	Historical Growth
Natural Logarithm of TTM Sales	4.19	Liquidity, Risk & Size
3-yr Compound Annual ROIC Growth	4.18	Historical Growth
Natural Logarithm of Total Assets	4.11	Liquidity, Risk & Size

Source: IHS Markit

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Figure 4

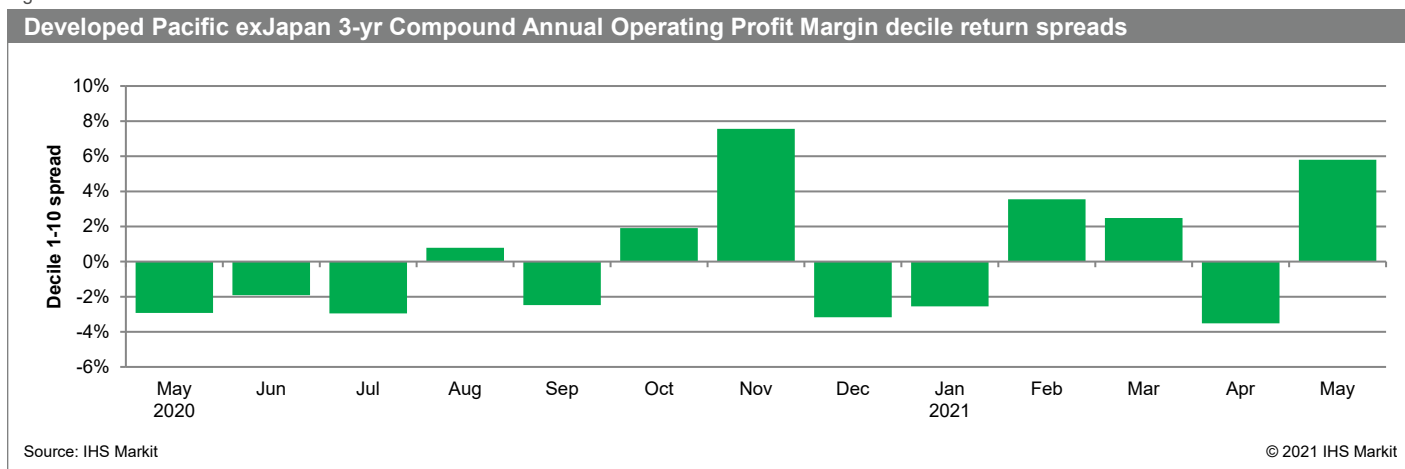


Table 9

Developed Pacific exJapan bottom decile return spread factor performance, May 2021		
Factor	Decile spread (%)	Factor group
3-yr Growth in TTM Cash Flow	-5.84	Historical Growth
3-yr Change in Assets-adj TTM Cash Flow	-5.62	Historical Growth
Year-over-Year Change in EBITDA-to-Debt	-5.49	Liquidity, Risk & Size
3-yr Change in Assets-adj TTM Oper Cash Flow	-5.41	Historical Growth
Unexpected Change in Accounts Receivable	-5.38	Earnings Quality
2-Month Active Return	-5.34	Price Momentum
3-yr Change in Assets-adj TTM EPS	-5.25	Historical Growth
Slope of 66 Week Price Trend Line	-5.14	Price Momentum
3-yr Growth in TTM Earnings per Share	-4.89	Historical Growth
Yearly Change in ROE - Arithmetic Difference	-4.55	Management Quality

Source: IHS Markit

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Table 10

Japan Standard Cap top decile return spread factor performance, May 2021		
Factor	Decile spread (%)	Factor group
Oil Prices Sensitivity	5.49	Macro
60-Month Alpha	5.31	Price Momentum
Industrial Production Sensitivity	5.23	Macro
Credit Risk Premium Sensitivity	4.99	Macro
Natural Logarithm of TTM Sales (USD)	4.49	Liquidity, Risk & Size
50-200 Day Stock Price Ratio	4.45	Price Momentum
Natural Logarithm of Total Assets	4.41	Liquidity, Risk & Size
15/36 Week Stock Price Ratio	4.18	Price Momentum
Inventory Value Concentration	4.09	Short Sentiment
26-Week Relative Price Strength	3.86	Price Momentum
Normalized Earnings Yield	3.80	Deep Value
60-Month Active Return with 12-Month Lag	3.73	Price Momentum
Time Weighted Book Yield	3.72	Deep Value
Time Weighted Earnings Yield	3.68	Deep Value
36-Month Active Return with 1-Month Lag	3.68	Price Momentum

Source: IHS Markit

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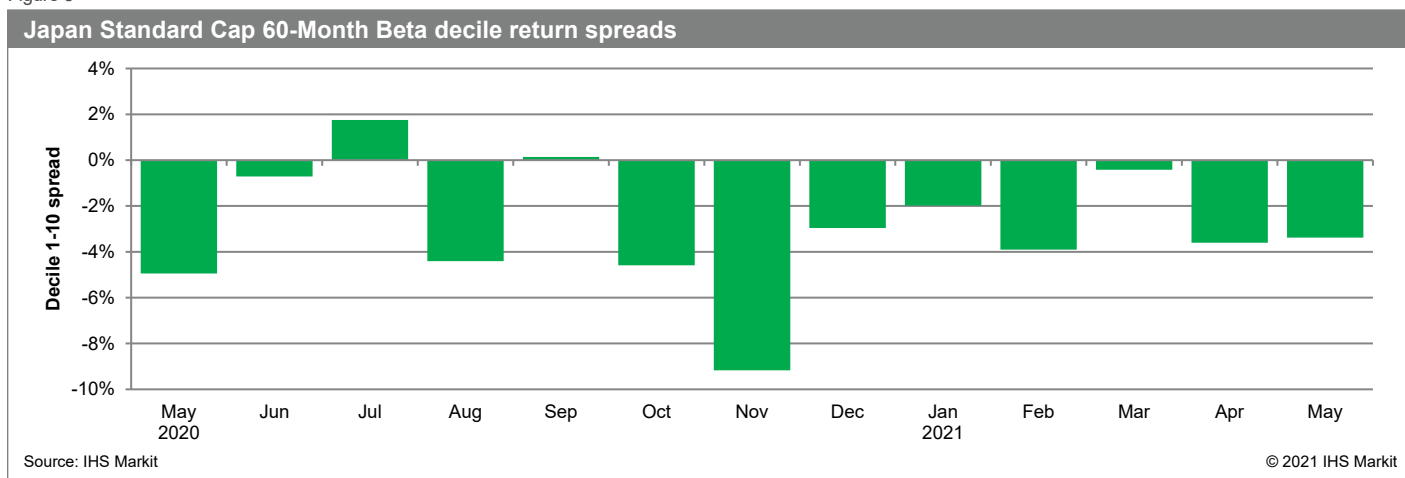
Table 11

Japan Standard Cap bottom decile return spread factor performance, May 2021		
Factor	Decile spread (%)	Factor group
5-day Industry Relative Return	-4.21	Price Momentum
Yearly TTM Total Sales Growth Rate	-4.10	Historical Growth
Second Preceding 6-month Return	-3.99	Price Momentum
24-Month Active Return with 1-Month Lag	-3.77	Price Momentum
1-yr Change in Assets-adj TTM EPS	-3.70	Historical Growth
Yearly Change in Return on Assets	-3.70	Management Quality
Dividend Coverage Ratio	-3.66	Liquidity, Risk & Size
Net Operating Asset Turnover	-3.60	Management Quality
1-yr Change in Sales	-3.56	Historical Growth
60-Month Beta	-3.38	Liquidity, Risk & Size

Source: IHS Markit

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Figure 5



Source: IHS Markit

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## Emerging Markets

We wrap up the report with a review of top (Table 12) and bottom (Table 13) performing factors in emerging markets in May. Investors showed a renewed preference for large firms, as demonstrated by the notable bounce in Natural Logarithm of Total Assets (6.40%) spread performance last month (Figure 6). Earnings Momentum measures were also strong performers, as captured by 2-Year Ahead EPS Growth (5.64%), while Price Momentum metrics such as 24-Month Active Return with 1-Month Lag (-5.42%) lagged.

Table 12

Emerging Markets top quintile return spread factor performance, May 2021		
Factor	Decile spread (%)	Factor group
Natural Logarithm of Total Assets (USD)	6.40	Liquidity, Risk & Size
Natural Logarithm of TTM Sales (USD)	5.94	Liquidity, Risk & Size
Cash Earnings Return On Equity	5.93	Management Quality
Trading Turnover Ratio	5.88	Liquidity, Risk & Size
2-Year Ahead EPS Growth	5.64	Earnings Momentum
Net Current Assets-to-Price	5.19	Deep Value
2-Year Ahead EPS Growth Percentage Change	5.03	Earnings Momentum
36-Month Active Return with 1-Month Lag	4.96	Price Momentum
Working Capital-to-Trailing 12-Month Sales	4.94	Management Quality
Dividend Coverage Ratio	4.87	Liquidity, Risk & Size
Average Trading Volume in Preceding 6-month	4.70	Price Momentum
5-yr Relative Book-to-Market	4.54	Relative Value
Working Capital-to-Total Assets	4.52	Management Quality
5-yr Relative TTM Sales-to-Price	4.46	Relative Value
3-Month Active Return	4.31	Price Momentum

Source: IHS Markit

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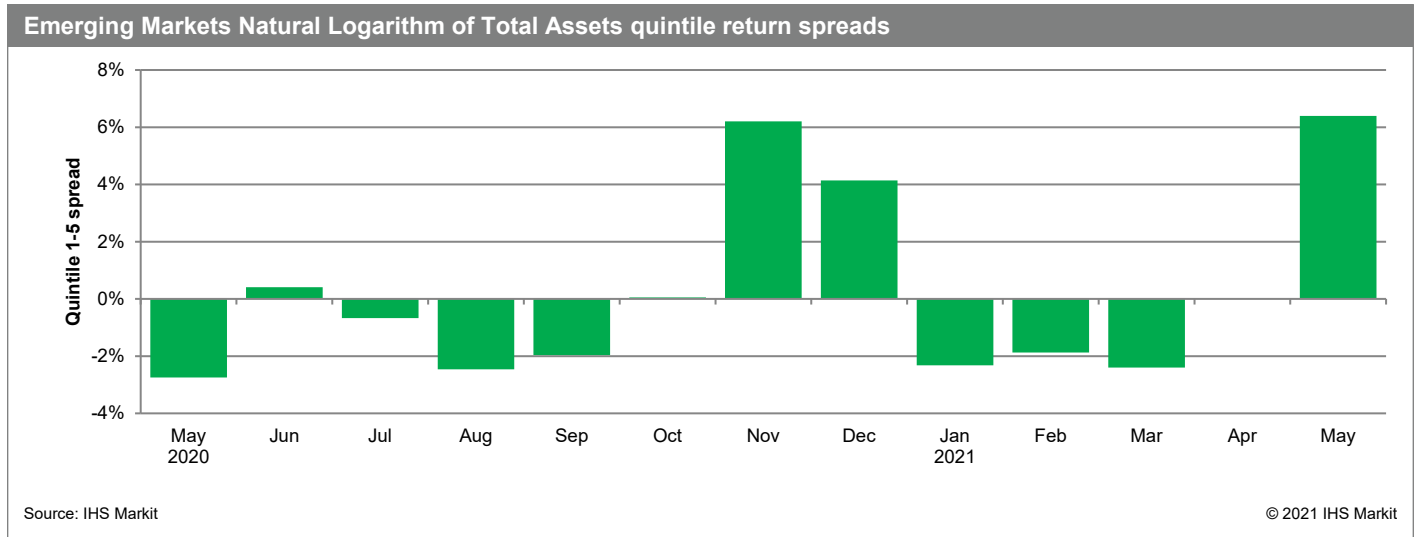
Table 13

Emerging Markets bottom quintile return spread factor performance, May 2021		
Factor	Decile spread (%)	Factor group
Natural Logarithm of Market Capitalization (USD)	-6.15	Liquidity, Risk & Size
24-Month Active Return with 1-Month Lag	-5.42	Price Momentum
Yield Curve Slope Sensitivity	-5.03	Macro
Credit Risk Premium Sensitivity	-5.03	Macro
Average Monthly Trading Volume-to-Market Cap	-4.63	Liquidity, Risk & Size
24-Month Value at Risk	-4.30	Price Momentum
Inflation Sensitivity	-4.08	Macro
SG&A Expenses-to-Sales	-3.98	Management Quality
Lending Supply	-3.95	Short Sentiment
Cash to Enterprise Value	-3.93	Deep Value

Source: IHS Markit

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Figure 6



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