

# Momentum in Asia fights off a second wave of value in Europe and the US

June 2020

## Research Signals

Several regional equity benchmarks posted their best quarter in years on optimism that their economies are recovering from coronavirus shutdowns as restrictions are eased, while weighing the risk of a second wave in COVID-19 cases. The J.P.Morgan Global Manufacturing PMI provided one such positive economic data point, signaling that the global manufacturing sector downturn eased sharply in June after starting on the recovery path in May. However, while increased risk taking was evident from factor performance across many regional universes, varying degrees of investor positioning were found, with momentum factors outperforming in developed Asia markets, whereas value prevailed in Europe and the US (Table 1).

- US: Increased risk taking was evidenced by underperformance to measures such as 60-Month Beta and 24-Month Value at Risk
- Developed Europe: Book-to-Market rebounded with an 11-percentage point increase in month-on-month spread performance
- Developed Pacific: Industry-adjusted 12-month Relative Price Strength returned to its winning ways in Japan after a one-month respite
- Emerging markets: 24-Month Value at Risk captured a robust aversion to low risk names, while undervalued names were favored based on Book-to-Market performance

## Contacts

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Table 1

## Global factor quantile return spread performance snapshot, Jun 2020

Factor	Factor Group	US Large Cap	US Small Cap	Developed Europe	Developed Pacific ex Japan	Japan Standard Cap	Emerging Markets
Book-to-Market		2.36	0.78	3.06	0.13	-2.82	2.56
Forward 12-M EPS-to-Enterprise Value	Deep Value	-1.94	-0.84	0.24	2.15	1.21	-1.17
TTM EBITDA-to-Enterprise Value		2.11	0.65	-0.32	-3.01	-0.34	-0.82
TTM Free Cash Flow-to-Enterprise Value		-1.96	-1.41	2.47	-3.02	0.84	-2.35
Industry Relative Leading 4-QTRs EPS to Price		-0.62	-0.79	1.34	-0.35	-0.13	0.96
Industry Relative TTM Dividend Yield	Relative Value	3.36	-0.39	0.17	-3.27	-0.83	-2.23
Fixed Assets Turnover Ratio	Management Quality	0.13	1.09	3.36	0.02	2.79	4.21
Inventory Turnover Ratio		-1.07	-5.03	-0.77	-1.14	-0.24	-1.90
Net Operating Asset Turnover		-2.91	3.93	-0.18	0.47	-0.20	0.27
Change in Accruals to Assets		-1.87	2.45	3.07	1.04	1.74	-0.81
Change in TTM COGS vs. Inventory Level	Earnings Quality	2.41	-2.05	1.50	1.05	2.76	-0.89
Change in TTM Sales vs. Accounts Receivable		0.56	1.90	1.08	-0.05	-3.82	0.74
Working Capital Accruals		4.28	-1.38	2.58	-0.78	1.36	1.66
1-yr Growth in TTM Free Cash Flow		-0.27	1.54	2.21	-3.91	1.87	-1.10
Reinvestment Rate	Historical Growth	-2.82	-1.81	-1.32	-0.66	2.57	-1.08
Average Monthly Trading Volume-to-Market Cap	Liquidity, Risk & Size	4.91	8.83	2.39	2.09	-2.53	2.41
60-Month Beta		-6.27	-9.93	-1.12	3.56	-0.71	-4.79
Asset Quality Index		-0.88	-2.75	-0.95	4.19	0.77	1.18
Operating Leverage		1.40	2.34	0.78	2.47	0.89	0.62
Natural Logarithm of Market Capitalization		3.75	4.75	0.17	-2.14	-2.97	2.68
2-Year Ahead EPS Growth	Earnings Momentum	1.57	2.95	2.97	0.46	-2.73	5.48
3-M Revision in FY2 EPS Forecasts		-5.15	-4.02	-0.69	5.22	5.72	-4.26
Real Earnings Surprise		3.27	2.28	0.40	1.19	2.09	0.51
24-Month Value at Risk	Price Momentum	-7.60	-10.70	0.39	1.30	1.80	-9.73
5-day Industry Relative Return		2.81	4.58	0.93	3.87	0.32	1.75
Industry-adjusted 12-month Relative Price Strength		-2.61	-1.17	-1.00	-0.52	5.14	-0.96
Rational Decay Alpha		-0.72	2.10	-0.02	-0.31	3.30	-3.40
Demand Supply Ratio	Short Sentiment	-5.47	-8.89	-2.79	-7.48	0.32	-5.30
Implied Loan Rate		-2.78	-4.55	1.52	-0.31	1.50	1.55

Source: IHS Markit

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## United States

### US Large Cap

As goods producers and their customers began to reopen amid looser COVID-19 restrictions in June, a record rise in manufacturing operating conditions was logged. The PMI signaled only a fractional deterioration in June, registering at 49.8, up 10 points from 39.8 in May, amid unprecedented gains in the survey's output, employment and order book gauges. Equities extended their rally from the late March low, posting their best quarter in over 20 years on hopes the economy has a quick rebound from the coronavirus shutdown.

Value measures made a resurgence among the top performing factors for US large caps in June (Table 2). Cash-to-Price (6.71%) led the way (Figure 1) with a second wave of outperformance following a lull in May. Other factors of interest include Oil Prices Sensitivity (6.63%), 5-yr Relative TTM Oper Cash Flow-to-Price (6.43%) and Natural Logarithm of Closing Price (5.56%). Factors which trailed for the month (Table 3) included several risk measures such as 60-Day Residual Risk (-7.65%), whose performance over the past three months suggests a general trend toward risk taking (Figure 1).

Table 2

US Large Cap top decile return spread factor performance, Jun 2020		
Factor	Decile spread (%)	Factor group
Cash-to-Price	6.71	Deep Value
Oil Prices Sensitivity	6.63	Macro
5-yr Relative TTM Oper Cash Flow-to-Price	6.43	Relative Value
5-yr Relative TTM EBITDA-to-Price	6.36	Relative Value
5-yr Relative Book-to-Market	6.28	Relative Value
5-yr Relative TTM Dividend Yield	6.17	Relative Value
5-yr Relative TTM Sales-to-Price	6.05	Relative Value
Implied Volatility	5.57	Liquidity, Risk & Size
Natural Logarithm of Closing Price	5.56	Liquidity, Risk & Size
Cash to Enterprise Value	5.54	Deep Value
3-Month Active Return	5.18	Price Momentum
Growth Duration	5.10	Liquidity, Risk & Size
Average Monthly Trading Volume-to-Market Cap	4.91	Liquidity, Risk & Size
1-yr Change in Operating Profit Margin	4.81	Historical Growth
Treynor Index	4.65	Price Momentum

Source: IHS Markit

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Figure 1

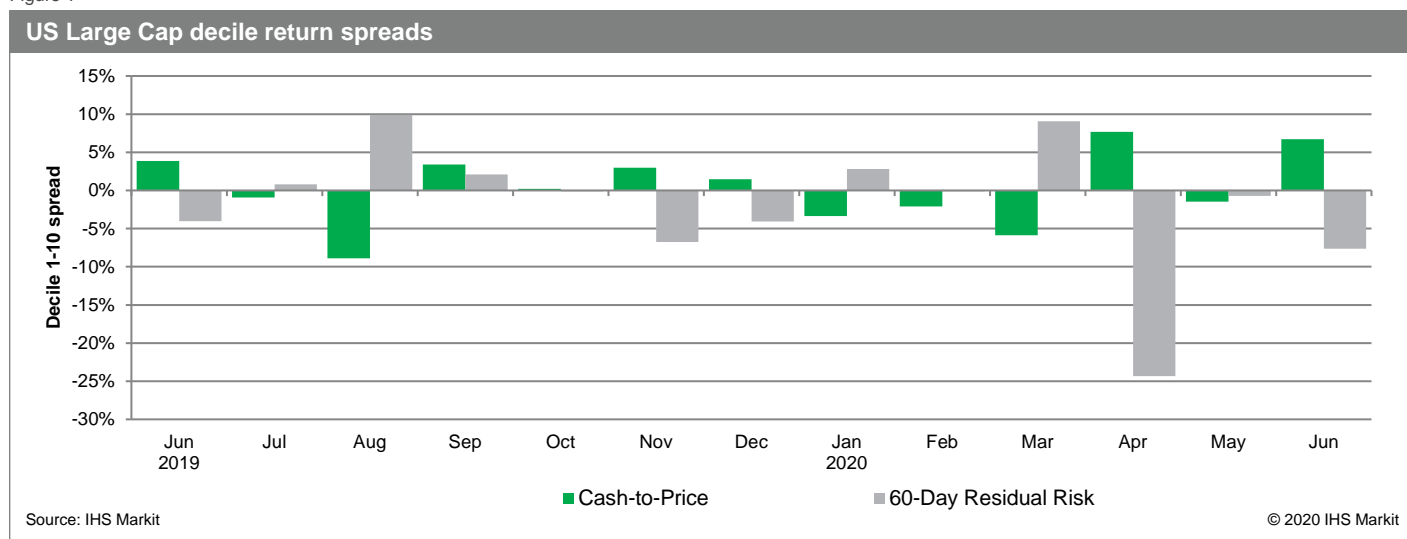


Table 3

**US Large Cap bottom decile return spread factor performance, Jun 2020**

Factor	Decile spread (%)	Factor group
At the Money Put Option Implied Volatility	-8.99	Liquidity, Risk & Size
CV of Prior 90-Day Closing Prices	-8.91	Price Momentum
Asset Composition	-8.52	Liquidity, Risk & Size
Trading Turnover Ratio	-8.01	Liquidity, Risk & Size
1-Month Stock Return Interquartile Range	-7.75	Liquidity, Risk & Size
60-Day Residual Risk	-7.65	Liquidity, Risk & Size
24-Month Value at Risk	-7.60	Price Momentum
Distress Measure	-7.44	Liquidity, Risk & Size
At the Money Call Option Implied Volatility	-7.43	Liquidity, Risk & Size
1-Month Realized Stock Return Volatility	-7.37	Liquidity, Risk & Size

Source: IHS Markit

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## US Small Cap

The list of top performing factors among small caps in June (Table 4) included several overlapping indicators with large caps, including Cash-to-Price (9.62%), Natural Logarithm of Closing Price (8.85%) and Oil Prices Sensitivity (7.01%). Likewise, an increased risk appetite was captured by bottom performing signals (Table 5), such as 24-Month Value at Risk (-10.70%) and 60-Day Residual Risk (-10.65%). We also highlight Utilization (-9.24%), whose underperformance the past three months indicates that investors were willing to bid up the most highly shorted names (Figure 2).

Table 4

**US Small Cap top decile return spread factor performance, Jun 2020**

Factor	Decile spread (%)	Factor group
Cash-to-Price	9.62	Deep Value
Natural Logarithm of Closing Price	8.85	Liquidity, Risk & Size
Average Monthly Trading Volume-to-Market Cap	8.83	Liquidity, Risk & Size
3-Month Active Return	8.58	Price Momentum
Net Debt Ratio	8.51	Management Quality
Market Leverage	7.92	Liquidity, Risk & Size
Total Debt to Total Assets	7.29	Liquidity, Risk & Size
Net Cash to Equity	7.18	Liquidity, Risk & Size
Comprehensive Debt to Total Assets	7.11	Liquidity, Risk & Size
Oil Prices Sensitivity	7.01	Macro
Aggregate Gamma	6.94	Liquidity, Risk & Size
Leading 12 Month Sales Yield	6.83	Deep Value
TTM Sales-to-Price	6.68	Deep Value
36-Month Active Return with 1-Month Lag	6.63	Price Momentum
1-yr Chg in Assets-adj TTM Free Cash Flow	6.62	Historical Growth

Source: IHS Markit

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Table 5

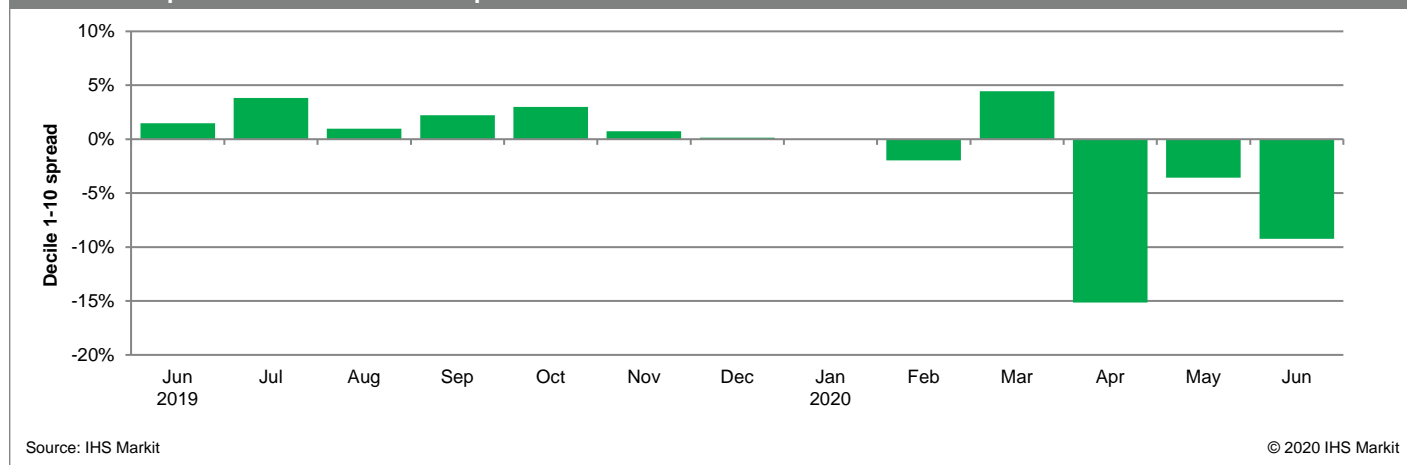
**US Small Cap bottom decile return spread factor performance, Jun 2020**

Factor	Decile spread (%)	Factor group
24-Month Value at Risk	-10.70	Price Momentum
60-Day Residual Risk	-10.65	Liquidity, Risk & Size
Product of Beta and Sigma	-10.08	Liquidity, Risk & Size
60-Month Beta	-9.93	Liquidity, Risk & Size
Utilization	-9.24	Short Sentiment
CV of Prior 90-Day Closing Prices	-9.18	Price Momentum
Demand Supply Ratio	-8.89	Short Sentiment
1-Month Realized Stock Return Volatility	-8.74	Liquidity, Risk & Size
4-Year Change in the Average Trading Volume	-8.42	Price Momentum
60-Month Trading Volume Trend	-8.30	Liquidity, Risk & Size

Source: IHS Markit

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Figure 2

**US Small Cap Utilization decile return spreads**

Source: IHS Markit

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## Europe

The eurozone manufacturing economy continued to ease in June, in line with the continued easing of COVID-19 restrictions on economic activity. The PMI strengthened to a four-month high of 47.4 in June, from 39.4 in May. All countries recorded a relative improvement in their readings, with France and Ireland above the 50.0 no-change mark, while Germany and the Netherlands continued to lag the rest of the region. Confidence about production in the year ahead returned to positive territory during June, consistent with equity investors' hopes that further easing of lockdown measures will support economic growth, as markets finished their best quarter since March 2015.

Value measures were key among the top performing factors in Developed Europe in June (Table 6), as represented by 5-yr Relative Leading 12-Month Earnings Yield (4.95%) and Net Asset Value to Price (4.51%). Another factor of interest is Integrated ESG Rating (3.70%), capturing a positive investor bias to names with the highest corporate governance scores (Figure 3). At the opposite extreme, the weakest performing factors (Table 7) span a broad spectrum of styles including Change in TTM EPS vs. Oper Cash Flows (-3.90%), Short Interest (-3.64%) and 24-Month Active Return with 1-Month Lag (-3.35%).

Table 6

### Developed Europe top decile return spread factor performance, Jun 2020

Factor	Decile spread (%)	Factor group
Yield Curve Slope Sensitivity	5.36	Macro
5-yr Relative Leading 12-Month Earnings Yield	4.95	Relative Value
Natural Logarithm of Total Assets (USD)	4.80	Liquidity, Risk & Size
Net Asset Value to Price	4.51	Deep Value
Leading 12 Month Book Yield	4.35	Deep Value
Time Weighted Book Yield	4.17	Deep Value
On Loan Value Concentration	4.02	Short Sentiment
Inventory Value Concentration	4.01	Short Sentiment
Short Concentration Ratio	3.88	Short Sentiment
Integrated ESG Rating	3.70	ESG
Product Innovation	3.64	ESG
Graham Number Fair Value Premium	3.64	Deep Value
Leading 12 Month Total Dividend Yield	3.56	Dividend Forecast
60-Month Active Return with 1-Month Lag	3.55	Price Momentum
Natural Logarithm of TTM Sales (USD)	3.51	Liquidity, Risk & Size

Source: IHS Markit

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Figure 3

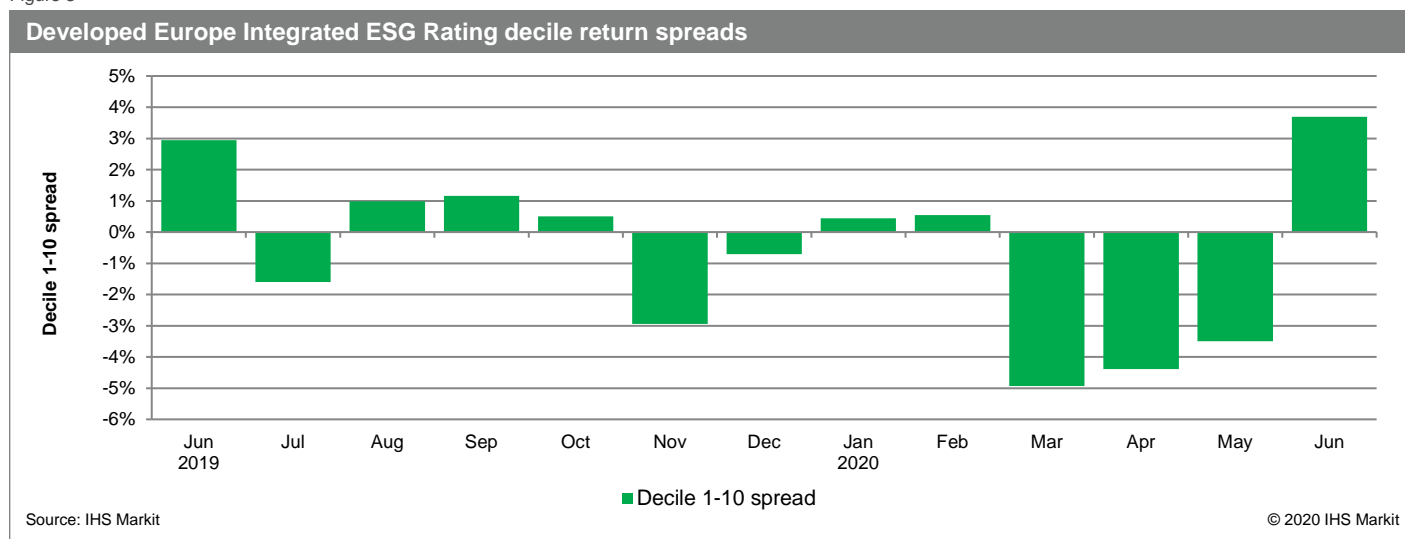


Table 7

Developed Europe bottom decile return spread factor performance, Jun 2020		
Factor	Decile spread (%)	Factor group
Asset Composition	-4.40	Liquidity, Risk & Size
Current Ratio	-4.16	Liquidity, Risk & Size
Change in TTM EPS vs. Oper Cash Flows	-3.90	Earnings Quality
Short Interest	-3.64	Short Sentiment
Capital Gearing Ratio	-3.50	Liquidity, Risk & Size
24-Month Active Return with 1-Month Lag	-3.35	Price Momentum
3-yr Compound Annual Operating Profit Margin	-3.31	Historical Growth
Working Capital-to-Trailing 12-Month Sales	-3.23	Management Quality
Long-Term Growth Rate Estimates	-3.22	Earnings Momentum
Working Capital to Inventory	-3.00	Management Quality

Source: IHS Markit

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## Asia-Pacific

PMI readings in the two largest Asian economies of China and Japan continued to straddle the 50.0 no-change mark last month. In China, the June headline figure came in at 51.2, from 50.7 in May, with firms signaling a further rise in production and a renewed increase in total new business; however, export work continued to fall amid weak external demand. Meanwhile, the manufacturing sector in Japan remained under pressure, with the PMI posting at 40.1 in June, up slightly from 38.4 in May, as demand continues to drop. Stocks in China also fared better in June, though Japan was the clear winner for the quarter.

Momentum indicators were once again the top factor performers in developed Pacific markets outside Japan in June (Table 8). Slope of 52 Week Price Trend Line (10.00%) took top honors, with a 15.9% cumulative spread performance over the past two months (Figure 4). Other positively rewarded themes include North America Sales Exposure (8.44%) and Street Revision Magnitude (7.86%). On the other hand, Short Sentiment and Management Quality measures were among the weakest performing factors in June (Table 9), as represented by Utilization (-14.79%) and Working Capital-to-Trailing 12-Month Sales (-8.73%).

Momentum indicators also dominated the list of top performing factors in Japan in June (Table 10). 18-Month Active Return with 1-Month Lag (7.59%) and 3-M Revision in FY2 EPS Forecasts (5.72%) led the Price and Earnings categories, respectively, with similar decile distributions indicating common trading activity across both signals (Figure 5), though the former's spread was more extreme, reaching its highest level since September 2016. At the opposite end of the spectrum, various valuation surrogates once again occupied the laggard board (Table 11), including such representatives as 36-Month Active Return with 1-Month Lag (-5.64%) and 3-Month Active Return (-5.04%), both price reversal metrics, along with 5-yr Relative Book-to-Market (-4.49%).

Table 8

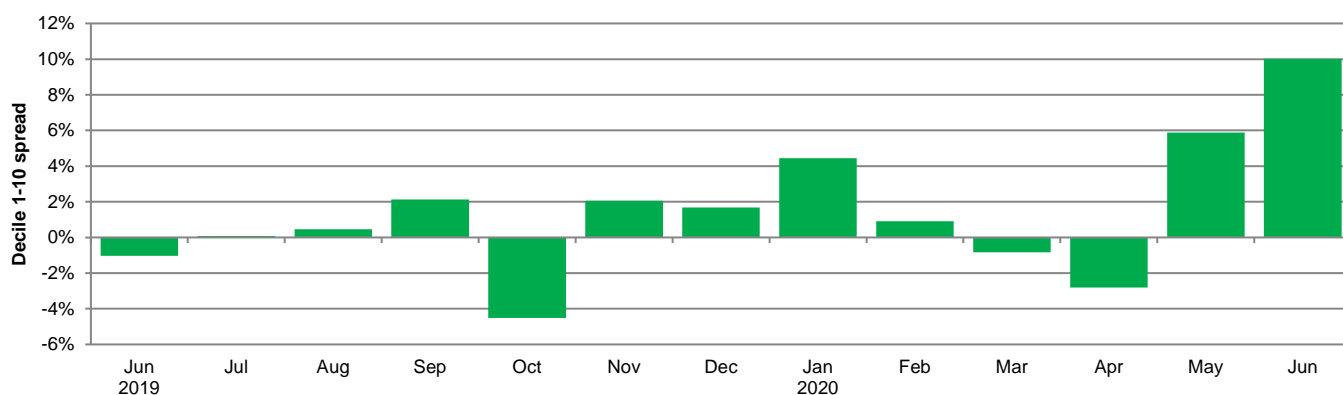
**Developed Pacific exJapan top decile return spread factor performance, Jun 2020**

Factor	Decile spread (%)	Factor group
Slope of 52 Week Price Trend Line	10.00	Price Momentum
6-Month Nominal Change in 18-Month Alpha	9.57	Price Momentum
50-200 Day Stock Price Ratio	9.03	Price Momentum
1-yr Change in Sales	8.85	Historical Growth
15/36 Week Stock Price Ratio	8.80	Price Momentum
North America Sales Exposure	8.44	Macro
6-Month Active Return with 1-Month Lag	8.23	Price Momentum
Street Revision Magnitude	7.86	Earnings Momentum
2-Month Active Return	7.72	Price Momentum
On Loan Value Concentration	7.54	Short Sentiment
Short Concentration Ratio	7.50	Short Sentiment
3-M Revision in FY2 EPS Forecasts: Dispersion Relative	7.11	Earnings Momentum
Street Revision Confidence	6.98	Earnings Momentum
3-M Revision in FY1 EPS Forecasts	6.96	Earnings Momentum
6-Month Nominal Change in 36-Month Alpha	6.70	Price Momentum

Source: IHS Markit

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Figure 4

**Developed Pacific exJapan Slope of 52-Week Price Trend Line decile return spreads**


Source: IHS Markit

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Table 9

## Developed Pacific exJapan bottom decile return spread factor performance, Jun 2020

Factor	Decile spread (%)	Factor group
Utilization	-14.79	Short Sentiment
Active Utilization	-9.38	Short Sentiment
Working Capital-to-Trailing 12-Month Sales	-8.73	Management Quality
Cash-to-Sales	-8.00	Management Quality
24-Month Residual Return Variance	-7.62	Price Momentum
Profitability Ratio	-7.61	Management Quality
Demand Supply Ratio	-7.48	Short Sentiment
Working Capital-to-Total Assets	-7.16	Management Quality
Free Cash Flow Return on Invested Capital	-7.10	Management Quality
Cash & Equivalents-to-Current Liabilities	-7.03	Liquidity, Risk & Size

Source: IHS Markit

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Table 10

## Japan Standard Cap top decile return spread factor performance, Jun 2020

Factor	Decile spread (%)	Factor group
18-Month Active Return with 1-Month Lag	7.59	Price Momentum
26-Week Relative Price Strength	6.79	Price Momentum
15/36 Week Stock Price Ratio	6.77	Price Momentum
6-Month Active Return with 1-Month Lag	6.69	Price Momentum
24-Month Active Return with 1-Month Lag	6.60	Price Momentum
1-Year Price Momentum Indicator	6.51	Price Momentum
52-Week High	6.20	Price Momentum
9-Month Active Return with 1-Month Lag	5.91	Price Momentum
12-Month Active Return with 1-month Lag	5.83	Price Momentum
6-Month Nominal Change in 36-Month Alpha	5.79	Price Momentum
3-M Revision in FY2 EPS Forecasts	5.72	Earnings Momentum
60-Day Lagged Quarterly Earnings Surprise	5.67	Earnings Momentum
Return on Equity	5.63	Management Quality
Street Revision Confidence	5.61	Earnings Momentum
Street Revision Magnitude	5.57	Earnings Momentum

Source: IHS Markit

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Figure 5

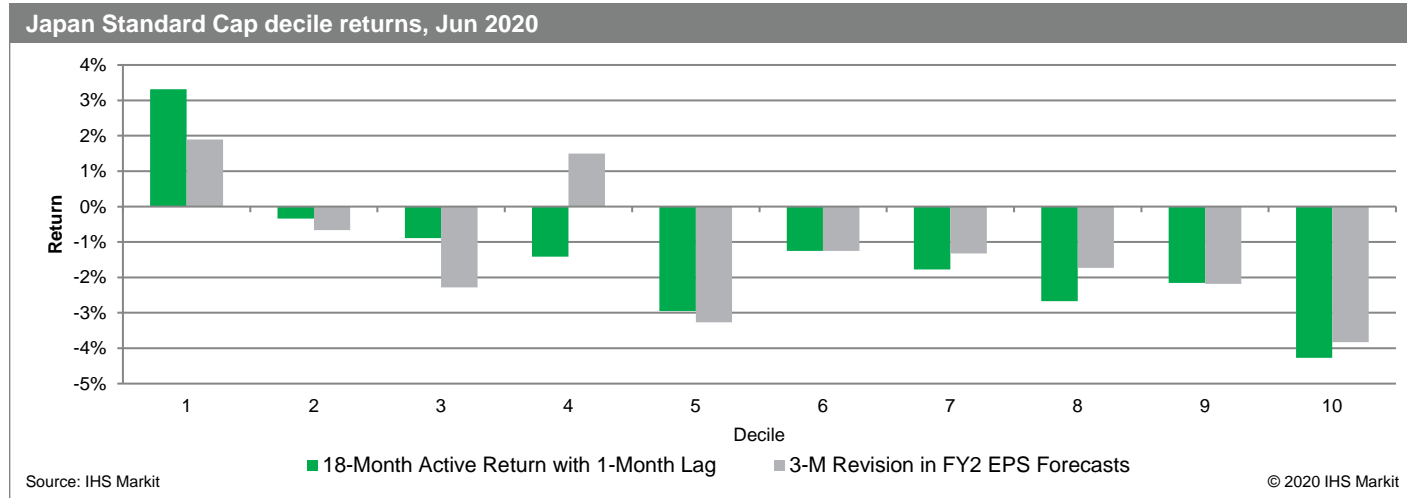


Table 11

**Japan Standard Cap bottom decile return spread factor performance, Jun 2020**

<b>Factor</b>	<b>Decile spread (%)</b>	<b>Factor group</b>
36-Month Active Return with 1-Month Lag	-5.64	Price Momentum
Altman Z Score	-5.41	Liquidity, Risk & Size
Price Above Last 260-day Lowest Trading Price	-5.12	Price Momentum
3-Month Active Return	-5.04	Price Momentum
60-Month Active Return with 1-Month Lag	-4.64	Price Momentum
1-yr Change in Total Assets	-4.57	Historical Growth
3-yr Compound Annual ROIC Growth	-4.51	Historical Growth
5-yr Relative Book-to-Market	-4.49	Relative Value
5-yr Relative TTM Sales-to-Price	-4.46	Relative Value
Asset Composition	-4.44	Liquidity, Risk & Size

Source: IHS Markit

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## Emerging Markets

We wrap up with a review of top (Table 12) and bottom (Table 13) performing factors in emerging markets in June. Valuation measures occupied nearly the totality of the leaderboard, led by 3-Month Active Return (7.96%) and 5-yr Relative Leading 12-Month Earnings Yield (6.58%). On the other hand, occupants of the laggard board are indicative of increased risk taking, as confirmed by 24-Month Value at Risk (-9.73%) whose monotonic distribution of quintile returns (Figure 6) suggests systematic trading across this signal.

Table 12

**Emerging Markets top quintile return spread factor performance, Jun 2020**

<b>Factor</b>	<b>Decile spread (%)</b>	<b>Factor group</b>
3-Month Active Return	7.96	Price Momentum
5-yr Relative Leading 12-Month Earnings Yield	6.58	Relative Value
4-week Industry Relative Return	6.38	Price Momentum
2-Year Ahead EPS Growth	5.48	Earnings Momentum
1-Month Active Return	5.43	Price Momentum
2-Year Projected EPS Growth	5.22	Earnings Momentum
Industry Relative TTM Sales-to-Price	5.06	Relative Value
36-Month Active Return with 1-Month Lag	5.06	Price Momentum
5-yr Relative TTM EBITDA-to-Price	5.02	Relative Value
5-yr Relative Book-to-Market	4.97	Relative Value
5-yr Relative TTM Cash Flow-to-Price	4.82	Relative Value
Housing Starts Sensitivity	4.67	Macro
5-yr Relative TTM Sales-to-Price	4.55	Relative Value
2-Year Ahead EPS Growth Percentage Change	4.51	Earnings Momentum
Dividend Coverage Ratio	4.44	Liquidity, Risk & Size

Source: IHS Markit

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Table 13

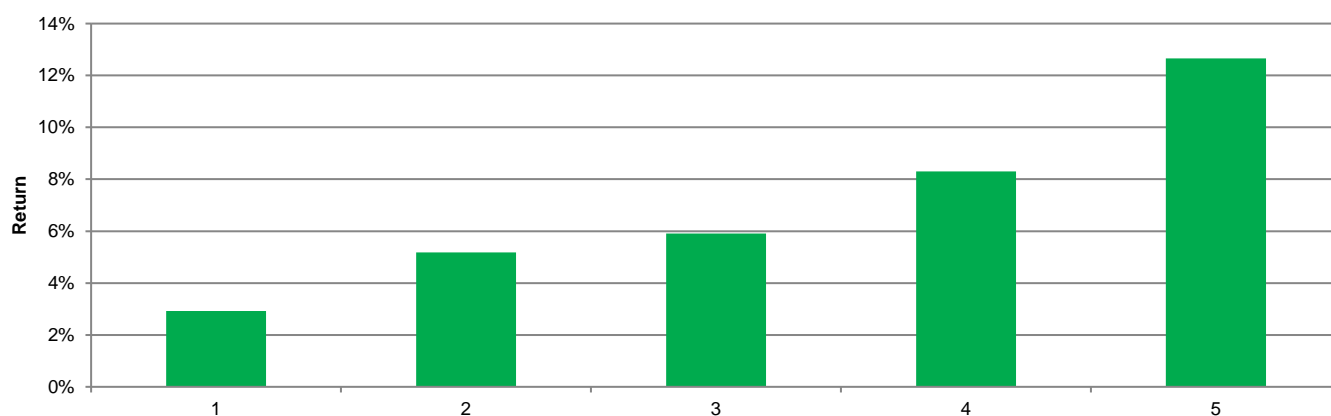
**Emerging Markets bottom quintile return spread factor performance, Jun 2020**

Factor	Decile spread (%)	Factor group
CV of Prior 90-Day Closing Prices	-11.65	Price Momentum
24-Month Value at Risk	-9.73	Price Momentum
24-Month Residual Return Variance	-9.01	Price Momentum
52-Week High	-8.77	Price Momentum
Regression Error of 60-Month CAPM	-8.66	Liquidity, Risk & Size
1-Month Stock Return Interquartile Range	-8.53	Liquidity, Risk & Size
1-Month Realized Stock Return Volatility	-8.34	Liquidity, Risk & Size
Stock Return Volatility	-8.32	Liquidity, Risk & Size
Distress Measure	-8.11	Liquidity, Risk & Size
Std Dev of FY2 EPS Estimates-to-Price	-8.08	Earnings Momentum

Source: IHS Markit

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Figure 6

**Emerging Markets 24-Month Value at Risk quintile returns, Jun 2020**

Source: IHS Markit

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