

Bearing down on high-risk shares

June 2022

Research Signals

Investors continue to grapple with an elevated level of macro risks, fearing that central bank efforts to control inflation may trigger a recession if interest rates are raised too far too fast. In turn, a heightened level of risk aversion swept across global equity markets (Table 1), as sentiment remained negative in many regions, including the US where stocks officially entered bear market territory.

- US: Low risk shares were highly favored last month, as demonstrated by double-digit spreads awarded to 60-Month Beta
- Developed Europe: The risk-off trade was further accompanied by avoidance of the most highly shorted shares based on Demand Supply Ratio scores
- Developed Pacific: High momentum shares struggled in June, dragging down performance of Industry-adjusted 12-month Relative Price Strength
- Emerging markets: Investors turned to low-risk shares and away from momentum, as gauged respectively by 24-Month Value at Risk and Rational Decay Alpha

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Table 1

Global factor quantile return spread (%) performance snapshot, Jun 2022

Factor	Factor Group	US Large	US	Developed	Developed	Japan	Emerging
		Cap	Small Cap	Europe	Pacific ex Japan	Standard Cap	Markets
Book-to-Market		-4.48	4.49	-1.23	7.08	7.01	0.23
Forward 12-M EPS-to-Enterprise Value	Deep Value	-2.40	-21.31	-2.47	-0.88	-2.09	-3.00
TTM EBITDA-to-Enterprise Value		-3.00	-9.93	-1.54	-1.94	1.72	-2.14
TTM Free Cash Flow-to-Enterprise Value		0.08	-5.14	0.52	-1.18	0.46	-1.24
Industry Relative Leading 4-QTRs EPS to Price		Relative Value	0.01	-2.75	-3.80	5.62	2.11
Industry Relative TTM Dividend Yield	4.62		1.92	-0.55	6.48	-0.56	0.67
Fixed Assets Turnover Ratio	Management Quality	1.49	-12.40	1.72	6.05	-4.61	-1.75
Inventory Turnover Ratio		-2.27	-7.67	-5.45	-3.73	-0.27	0.24
Net Operating Asset Turnover		0.10	-8.62	-0.47	6.47	0.48	-1.73
Change in Accruals to Assets	Earnings Quality	0.02	-0.66	1.22	4.55	0.12	0.50
Change in TTM COGS vs. Inventory Level		3.63	-2.04	2.73	4.32	3.64	0.48
Change in TTM Sales vs. Accounts Receivable		-4.87	5.24	0.02	3.21	-1.47	-0.37
Working Capital Accruals		-0.87	-1.41	-1.55	-6.70	-0.81	-1.64
1-yr Growth in TTM Free Cash Flow	Historical Growth	-2.25	0.69	-1.73	1.28	-2.72	-1.42
Reinvestment Rate		-0.62	-6.90	-0.98	-5.64	-3.75	-3.27
Average Monthly Trading Volume-to-Market Cap	Liquidity, Risk & Size	-8.87	-1.12	-1.41	2.64	1.49	-4.30
60-Month Beta		12.33	10.71	10.93	14.78	9.11	5.13
Asset Quality Index		1.94	-0.70	2.20	0.00	-2.09	-0.18
Operating Leverage		2.00	1.13	0.58	1.05	0.65	-0.32
Natural Logarithm of Market Capitalization		-5.24	12.53	2.01	-2.25	0.26	-1.09
2-Year Ahead EPS Growth	Earnings Momentum	-1.03	-3.89	-0.78	5.71	2.77	1.71
3-M Revision in FY2 EPS Forecasts		-1.34	3.77	1.30	-9.45	-2.86	-0.59
Real Earnings Surprise		1.23	2.71	0.29	-2.86	-1.34	-0.62
24-Month Value at Risk	Price Momentum	5.40	-5.05	8.96	2.37	4.49	3.40
5-day Industry Relative Return		3.06	-1.03	0.34	-8.12	1.53	-1.73
Industry-adjusted 12-month Relative Price Strength		3.81	-0.21	4.35	-15.40	-4.26	-3.06
Rational Decay Alpha		3.92	-12.02	2.20	-16.27	-4.91	-3.57
Demand Supply Ratio		Short Sentiment	6.72	5.39	7.07	4.28	-0.33
Implied Loan Rate	4.62		2.69	0.83	0.33	0.64	4.41

Source: IHS Markit

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United States

US Large Cap

The US manufacturing sector signaled subdued improvements in operating conditions in June, with the headline PMI figure easing notably to 52.7, down from 57.0 in May, touching its lowest level since July 2020 amid a near-stagflation of factory output and a fall in new orders. Stocks also suffered another monthly decline, finishing their worst first half to the year since 1970 as consumer spending weakened on elevated inflation and rising interest rates.

Risk aversion was a prominent theme among the top performing factors for US large caps in June (Table 2). 60-Month Beta (12.33%) was one such measure which surged in performance, posting its highest spread over the past year (Figure 1). On the other hand, several sales-based measures trailed for the month (Table 3), including Yearly TTM Total Sales Growth Rate (-8.80%) and Time Weighted Sales Yield (-7.85%). Oil Prices Sensitivity (-8.04%) performance also plunged in June.

Table 2

US Large Cap top decile return spread factor performance, Jun 2022		
Factor	Decile spread	Factor group
Std Dev of FY1 EPS Estimates-to-Price	12.75	Earnings Momentum
60-Month Beta	12.33	Liquidity, Risk & Size
Product of Beta and Sigma	11.26	Liquidity, Risk & Size
Std Dev of FY2 EPS Estimates-to-Price	10.73	Earnings Momentum
Stock Return Volatility	9.76	Liquidity, Risk & Size
Sales Growth Rate Standard Deviation	9.23	Historical Growth
24-Month Residual Return Variance	8.67	Price Momentum
Debt to Market Cap	8.57	Liquidity, Risk & Size
1-Month Stock Return Interquartile Range	8.39	Liquidity, Risk & Size
Average Trading Volume in Preceding 6-month	8.29	Price Momentum
20-Day Volume Volatility to Price Volatility	8.01	Liquidity, Risk & Size
Trading Turnover Ratio	7.43	Liquidity, Risk & Size
Short Interest Position	7.42	Liquidity, Risk & Size
Active Utilization	7.37	Short Sentiment
1-Month Realized Stock Return Volatility	7.27	Liquidity, Risk & Size

Source: IHS Markit

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Figure 1

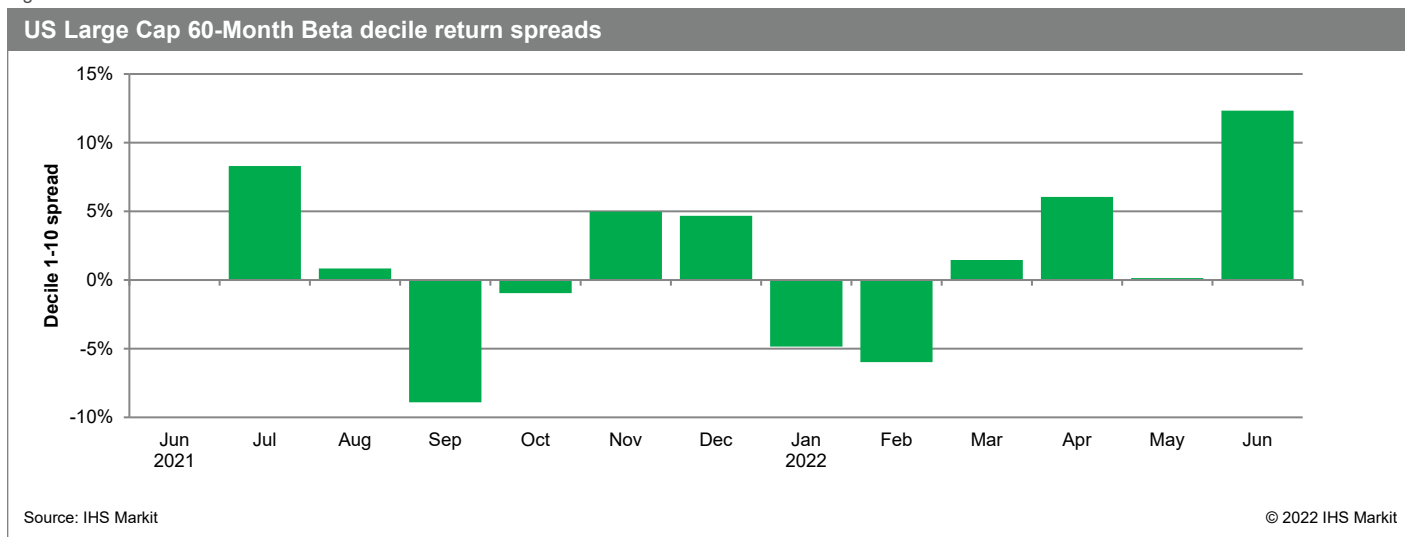


Table 3

US Large Cap bottom decile return spread factor performance, Jun 2022

Factor	Decile spread	Factor group
Average Monthly Trading Volume-to-Market Cap	-8.87	Liquidity, Risk & Size
Yearly TTM Total Sales Growth Rate	-8.80	Historical Growth
Market Leverage	-8.57	Liquidity, Risk & Size
Oil Prices Sensitivity	-8.04	Macro
Time Weighted Sales Yield	-7.85	Deep Value
TTM Sales-to-Price	-7.84	Deep Value
1 Year Change in Gross Profit to Assets	-7.66	Management Quality
Altman Z Score	-7.57	Liquidity, Risk & Size
Leading 12 Month Sales Yield	-7.45	Deep Value
Lagged Inverse of PEG Ratio	-7.22	Earnings Momentum

Source: IHS Markit © 2022 IHS Markit

US Small Cap

Several styles were represented on the list of top performing factors for small caps in June (Table 4), including 36-Month Active Return with 1-Month Lag (14.16%), a long-term price reversal measure, and Stock Illiquidity (13.90%), a risk measure. Management Quality was also a key theme as exemplified by TTM Gross Profit Margin (17.04%), which experienced a solid boost in performance last month (Figure 2). On the contrary, performance for several Deep Value measures dipped deeply into negative territory last month (Table 5), including Forward 12-M EPS-to-Enterprise Value (-21.31%) and Net Current Assets-to-Price (-18.65%).

Table 4

US Small Cap top decile return spread factor performance, Jun 2022		
Factor	Decile spread	Factor group
Cash to Enterprise Value	19.78	Deep Value
Cash-to-Price	17.53	Deep Value
TTM Gross Profit Margin	17.04	Management Quality
3-yr MAD of TTM Sales	14.52	Liquidity, Risk & Size
36-Month Active Return with 1-Month Lag	14.16	Price Momentum
60-Day Normalized Money Flow	14.00	Price Momentum
Stock Illiquidity	13.90	Liquidity, Risk & Size
36-Month Sharpe Ratio	13.45	Price Momentum
Operating Liability Leverage	13.19	Management Quality
Natural Logarithm of Market Capitalization (USD)	12.53	Liquidity, Risk & Size
Product of TTM FCF Yield and Forward ROE	12.30	Earnings Momentum
Ohlson Bankruptcy Score	11.64	Liquidity, Risk & Size
Attention Span Ratio	11.42	Management Quality
Flow Ratio	11.15	Liquidity, Risk & Size
Advertising Intensity	11.08	Management Quality

Source: IHS Markit

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Figure 2

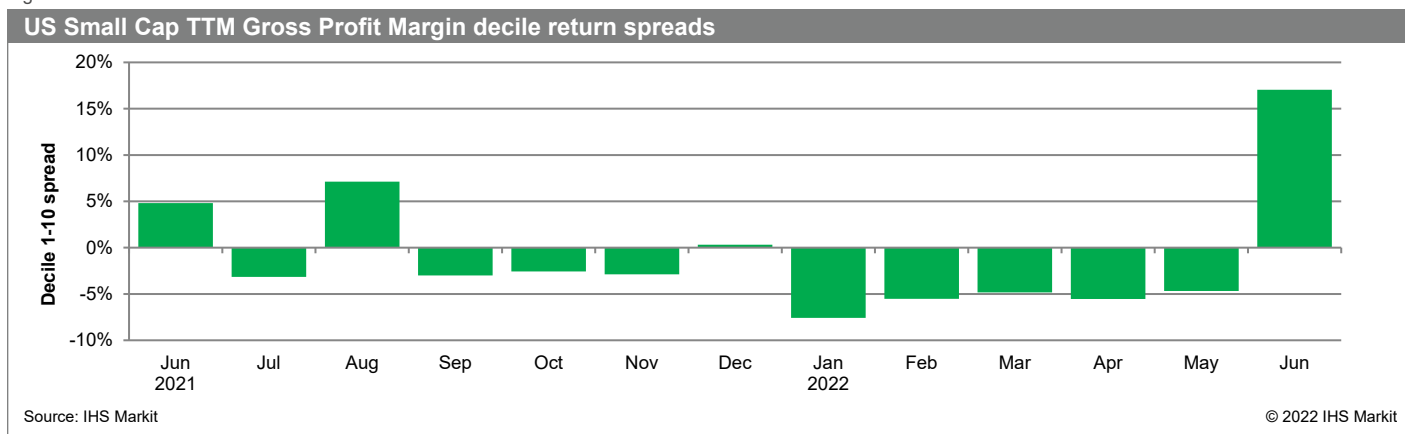


Table 5

US Small Cap bottom decile return spread factor performance, Jun 2022		
Factor	Decile spread	Factor group
Forward 12-M EPS-to-Enterprise Value	-21.31	Deep Value
Leading 12-Month Median Earnings Yield	-20.93	Deep Value
Leading 12-Month Mean Earnings Yield	-20.91	Deep Value
Time Weighted Earnings Yield	-20.91	Deep Value
Net Cash to Equity	-20.88	Liquidity, Risk & Size
Working Capital-to-Total Assets	-20.53	Management Quality
18-Month Active Return with 1-Month Lag	-19.28	Price Momentum
Net Current Assets-to-Price	-18.65	Deep Value
24-Month Active Return with 1-Month Lag	-18.50	Price Momentum
Leading 12 Month Sales Yield	-17.13	Deep Value

Source: IHS Markit

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Europe

The eurozone manufacturing economy ended the second quarter at a low, with the PMI declining to a 22-month low of 52.1 in June, from 54.6 in May, as production levels fell for the first time in two years. The slowdown was broad based across the monitored constituent nations, with the best-performing nation, the Netherlands, at a 19-month low, while Austria registered the sharpest slowdown, falling by over five index points. Equity markets also struggled, ending the worst quarter since the onset of the pandemic.

The cautious mood in equity markets was also reflected in factor performance in Developed Europe in June (Table 6). Product of Beta and Sigma (11.09%) and 60-Month Beta (10.93%), measures favoring low risk, were the top performers with double-digit positive spreads. Short Interest (9.78%), which has seen positive performance for most of the last year, followed closely behind with a sharp rise in spread last month (Figure 3). Conversely, short-term price reversal and value measures were among the weakest performers for the month (Table 7), including 3-Month Active Return (-5.73%), 5-yr Relative Leading 12-Month Earnings Yield (-4.72%) and TTM Sales-to-Price (-4.47%).

Table 6

Developed Europe top decile return spread factor performance, Jun 2022		
Factor	Decile spread	Factor group
Product of Beta and Sigma	11.09	Liquidity, Risk & Size
60-Month Beta	10.93	Liquidity, Risk & Size
Short Interest	9.78	Short Sentiment
52-Week High	9.52	Price Momentum
Stock Return Volatility	9.33	Liquidity, Risk & Size
24-Month Value at Risk	8.96	Price Momentum
24-Month Residual Return Variance	8.52	Price Momentum
9-Month Active Return with 1-Month Lag	8.52	Price Momentum
6-Month Nominal Change in 12-Month Alpha	8.27	Price Momentum
20-Day Volume Volatility to Price Volatility	8.23	Liquidity, Risk & Size
15/36 Week Stock Price Ratio	7.64	Price Momentum
Regression Error of 60-Month CAPM	7.61	Liquidity, Risk & Size
US Dollar Value Sensitivity	7.48	Macro
1-Month Stock Return Interquartile Range	7.48	Liquidity, Risk & Size
39-Week Return with 4-week Lag	7.20	Price Momentum

Source: IHS Markit

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Figure 3

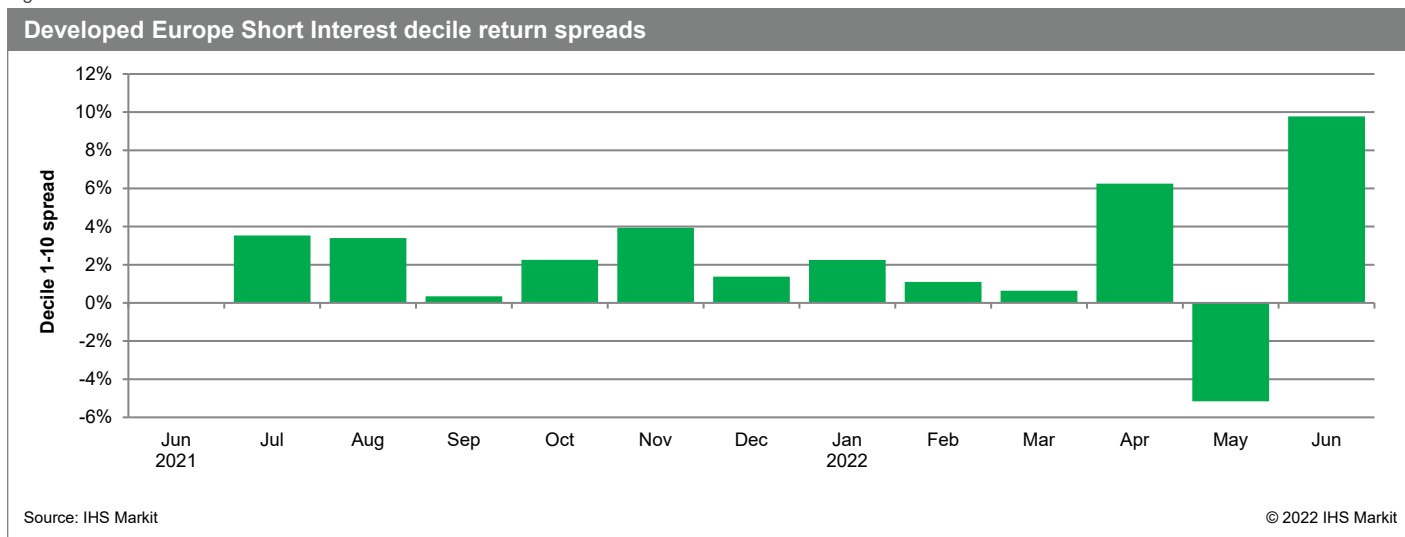


Table 7

Developed Europe bottom decile return spread factor performance, Jun 2022

Factor	Decile spread	Factor group
3-Month Active Return	-5.73	Price Momentum
2-Month Active Return	-5.47	Price Momentum
Inventory Turnover Ratio	-5.45	Management Quality
Yearly TTM Total Sales Growth Rate	-5.27	Historical Growth
5-yr Relative Leading 12-Month Earnings Yield	-4.72	Relative Value
Demand Value Concentration	-4.64	Short Sentiment
TTM Sales-to-Price	-4.47	Deep Value
Time Weighted Book Yield	-4.41	Deep Value
1-yr Change in Sales	-4.40	Historical Growth
Time Weighted Earnings Yield	-4.39	Deep Value

Source: IHS Markit © 2022 IHS Markit

Asia-Pacific

Manufacturing operating conditions in the two largest Asian economies of China and Japan moved in opposite directions in June. In China, the manufacturing PMI surged 13 points to 51.7, returning to growth territory from 48.1 in May, on the return of strong factory production growth. In Japan, the headline PMI dipped further to 52.7 in June, from 53.3 in May, partly due to a near-stagflation in new orders. Stocks also moved in opposite directions last month, as shares in China benefitted from the reopening of businesses following anti-virus shutdowns.

In developed Pacific markets outside Japan, the top performing factors in June (Table 8) spanned a broad selection of themes, including Average Trading Volume in Preceding 6-month (15.07%), 60-Month Beta (14.78%) and Edwards-Bell-Ohlson Value-to-Price (11.20%). However, the weakest performers (Table 9) were more highly concentrated among Price Momentum measures, with Fama-French Momentum (-26.39%) sitting at the furthest extreme, with a significant drop off in performance after a mostly positive year (Figure 4).

In Japan, Price Momentum of both medium- and long-term durations were disfavored by investors. Long-term measures, which we construct as price reversal metrics, topped the list of outperformers in June (Table 10). For example, the distribution of decile spreads across 36-Month Active Return with 1-Month Lag (9.46%) demonstrates investors aversion to the highest long-term momentum names which reside in the bottom decile of factor ranks (Figure 5). Likewise, 24-Month Active Return with 1-Month Lag (-11.64%), a medium-term momentum metric, topped the list of underperformers (Table 11). Outside of this group, other top and bottom performing factors include 60-Month Beta (9.11%), 1-yr Change in Total Assets (7.96%), Forward Return on Equity (-8.36%) and Yearly TTM Total Sales Growth Rate (-7.10%).

Table 8

Developed Pacific exJapan top decile return spread factor performance, Jun 2022

Factor	Decile spread	Factor group
Market Volatility Sensitivity	18.29	Macro
Natural Logarithm of Closing Price (USD)	15.10	Liquidity, Risk & Size
Average Trading Volume in Preceding 6-month	15.07	Price Momentum
60-Month Beta	14.78	Liquidity, Risk & Size
Industrial Production Sensitivity	14.49	Macro
Trading Turnover Ratio	13.90	Liquidity, Risk & Size
On Loan Value Concentration	12.49	Short Sentiment
36-Month Active Return with 1-Month Lag	12.08	Price Momentum
60-Month Active Return with 1-Month Lag	11.53	Price Momentum
Natural Logarithm of Total Assets (USD)	11.21	Liquidity, Risk & Size
Edwards-Bell-Ohlson Value-to-Price	11.20	Deep Value
3-Month Active Return	10.74	Price Momentum
Product of Beta and Sigma	10.68	Liquidity, Risk & Size
5-yr Relative TTM Sales-to-Price	10.59	Relative Value
Industry Relative Book-to-Market	10.53	Relative Value

Source: IHS Markit

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Table 9

Developed Pacific exJapan bottom decile return spread factor performance, Jun 2022

Factor	Decile spread	Factor group
Fama-French Momentum	-26.39	Price Momentum
30-75 Week Stock Price Ratio	-21.46	Price Momentum
Second Preceding 6-month Return	-21.28	Price Momentum
50-200 Day Stock Price Ratio	-20.02	Price Momentum
12-Month Active Return with 1-month Lag	-19.08	Price Momentum
39-Week Return with 4-week Lag	-18.43	Price Momentum
15/36 Week Stock Price Ratio	-17.97	Price Momentum
9-Month Active Return with 1-Month Lag	-17.12	Price Momentum
1-Year Price Momentum Indicator	-16.78	Price Momentum
18-Month Active Return with 1-Month Lag	-16.50	Price Momentum

Source: IHS Markit

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Figure 4

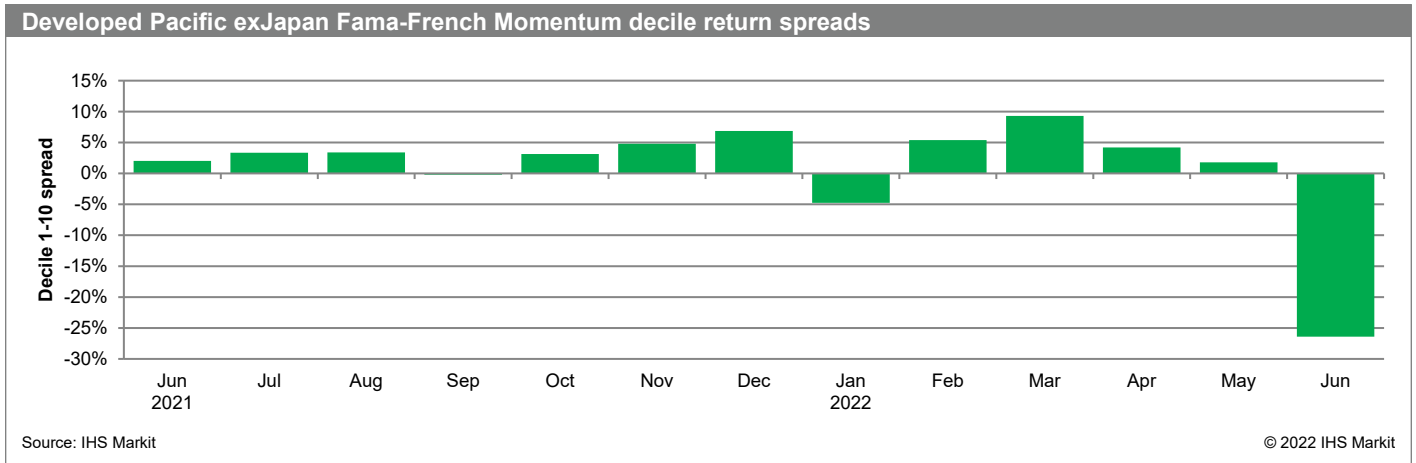


Table 10

Factor	Decile spread	Factor group
36-Month Active Return with 1-Month Lag	9.46	Price Momentum
60-Month Active Return with 12-Month Lag	9.23	Price Momentum
Product of Beta and Sigma	9.21	Liquidity, Risk & Size
60-Month Beta	9.11	Liquidity, Risk & Size
60-Month Active Return with 1-Month Lag	8.68	Price Momentum
1-yr Change in Total Assets	7.96	Historical Growth
Stock Return Volatility	7.93	Liquidity, Risk & Size
60-Month Alpha	7.71	Price Momentum
Leading 12 Month Book Yield	7.60	Deep Value
5-yr Sales Growth	7.43	Historical Growth
Time Weighted Book Yield	7.36	Deep Value
Tobin q	7.08	Liquidity, Risk & Size
Book-to-Market	7.01	Deep Value
Cyclically Adjusted Earnings-to-Price	6.90	Deep Value
Price-to-Total Assets	6.87	Deep Value

Source: IHS Markit © 2022 IHS Markit

Figure 5

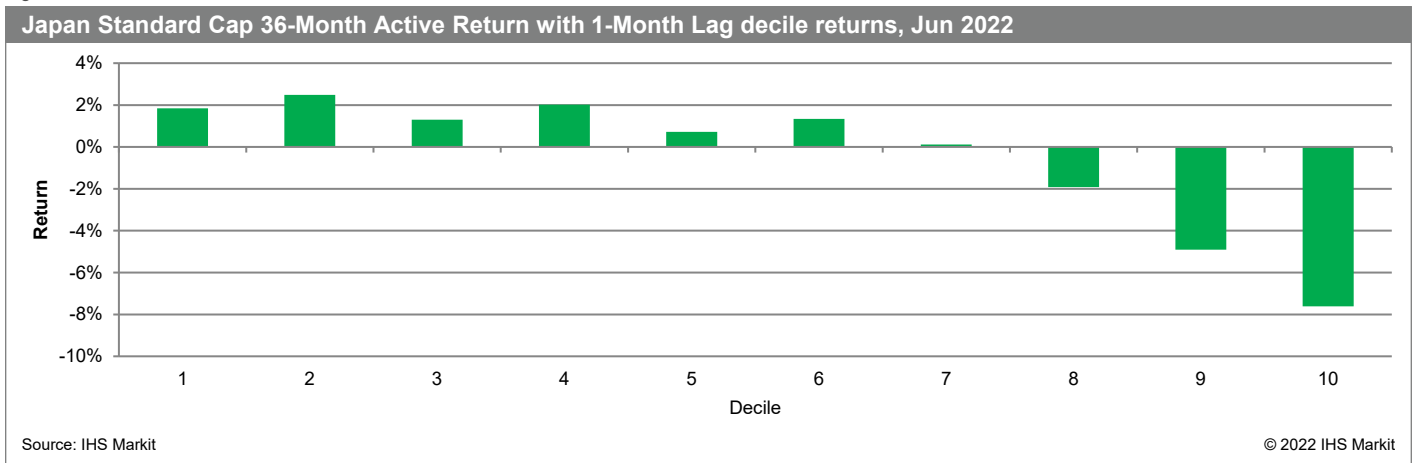


Table 11

Japan Standard Cap bottom decile return spread factor performance, Jun 2022		
Factor	Decile spread	Factor group
24-Month Active Return with 1-Month Lag	-11.64	Price Momentum
18-Month Active Return with 1-Month Lag	-8.59	Price Momentum
Forward Return on Equity	-8.36	Management Quality
Return on Assets	-7.62	Management Quality
Pretax Return on Net Operating Assets	-7.41	Management Quality
Profitability Ratio	-7.19	Management Quality
Yearly TTM Total Sales Growth Rate	-7.10	Historical Growth
30-75 Week Stock Price Ratio	-6.98	Price Momentum
Slope of 66 Week Price Trend Line	-6.72	Price Momentum
Return on Invested Capital	-6.67	Management Quality

Source: IHS Markit

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Emerging Markets

We wrap up our review with a list of top (Table 12) and bottom (Table 13) performing factors in emerging markets in June. As with our other coverage universes, the risk-off trade was effective last month, as demonstrated by Stock Return Volatility (6.08%) which has enjoyed a successful year of outperformance in all but one month, capped by its highest spread over the past year in June (Figure 6). At the opposite extreme, 2-Month Active Return (-5.94%), a short-term price reversal metric, capped the list of laggards which also included 24-Month Active Return with 1-Month Lag (-5.25%) and 3-yr Growth in TTM Cash Flow (-4.81%).

Table 12

Emerging Markets top decile return spread factor performance, Jun 2022		
Factor	Decile spread	Factor group
Trading Turnover Ratio	6.70	Liquidity, Risk & Size
Product of Beta and Sigma	6.57	Liquidity, Risk & Size
Average Trading Volume in Preceding 6-month	6.52	Price Momentum
60-Month Active Return with 12-Month Lag	6.12	Price Momentum
Stock Return Volatility	6.08	Liquidity, Risk & Size
Regression Error of 60-Month CAPM	5.92	Liquidity, Risk & Size
24-Month Residual Return Variance	5.88	Price Momentum
60-Month Alpha	5.35	Price Momentum
60-Month Beta	5.13	Liquidity, Risk & Size
60-Month Active Return with 1-Month Lag	5.02	Price Momentum
52-Week High	4.86	Price Momentum
3-yr Compound Annual TTM EPS after Extra Items-to-Price Growth Rate	4.77	Historical Growth
36-Month Active Return with 1-Month Lag	4.40	Price Momentum
3-yr Compound Annual Gross Margin Growth	4.12	Historical Growth
20-Day Volume Volatility to Price Volatility	4.11	Liquidity, Risk & Size

Source: IHS Markit

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Figure 6

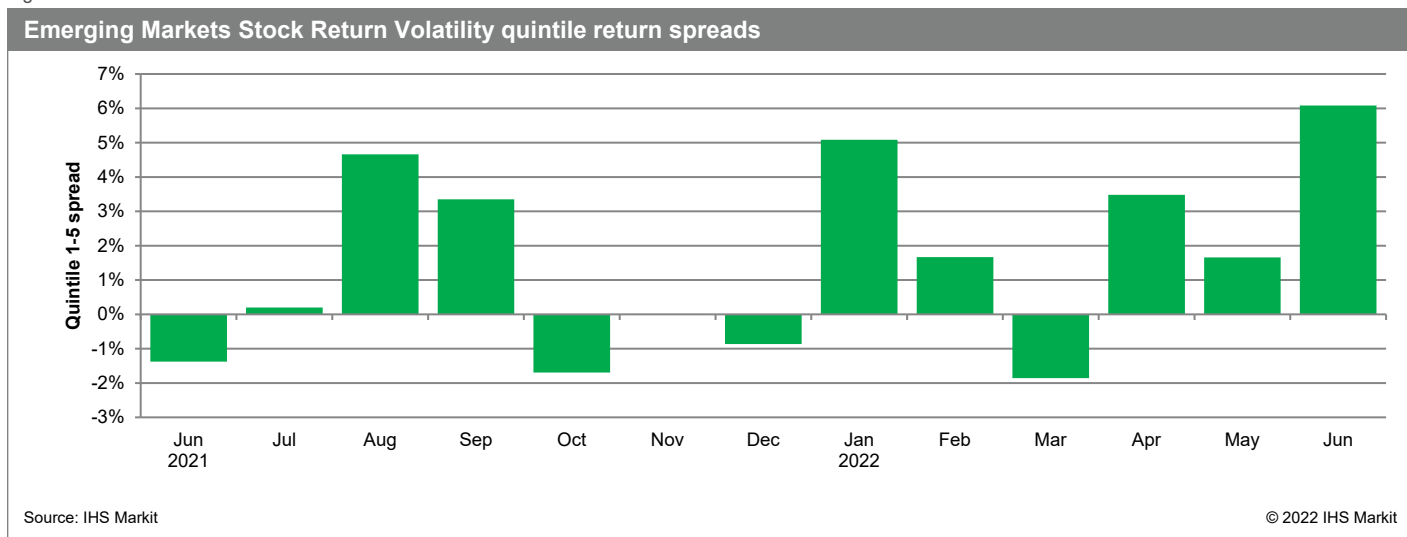


Table 13

Factor	Decile spread	Factor group
2-Month Active Return	-5.94	Price Momentum
24-Month Active Return with 1-Month Lag	-5.25	Price Momentum
18-Month Active Return with 1-Month Lag	-5.18	Price Momentum
3-yr Growth in TTM Cash Flow	-4.81	Historical Growth
3-yr Growth in TTM Earnings per Share	-4.69	Historical Growth
3 Year Change in Gross Profit Margin	-4.37	Management Quality
3-Month Active Return	-4.31	Price Momentum
Average Monthly Trading Volume-to-Market Cap	-4.30	Liquidity, Risk & Size
4-week Industry Relative Return	-4.28	Price Momentum
3-yr Change in Assets-adj TTM EPS	-4.21	Historical Growth

Source: IHS Markit © 2022 IHS Markit

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