

Value stalls on its road to recovery

July 2020

Research Signals

After staging a comeback in Europe and the US in June, value could not fend off infectious optimism for momentum strategies in July (Table 1), as markets celebrated strong big tech earnings results, several positive early stage COVID-19 vaccine trials and increased expectations for additional government stimulus. Other positive data points include the first expansion in the J.P.Morgan Global Manufacturing PMI since January. However, the employment PMI has not recovered and, coupled with the virus's resurgence in several countries, could create bumps in the road to recovery resulting from slowdowns in consumer spending and business activity.

- US: Industry-adjusted 12-month Relative Price Strength outperformed Book-to-Market by a spread of 14.1 percentage points among large caps, a sharp reversal of the prior month's 5.0 spread of the value signal over momentum
- Developed Europe: Investors demonstrated high conviction towards momentum strategies including Rational Decay Alpha and 3-M Revision in FY2 EPS Forecasts
- Developed Pacific: Momentum remained a highly favored investment style, with strong performance recorded by Industry-adjusted 12-month Relative Price Strength
- Emerging markets: Investors remained out on the risk curve, with 60-Month Beta posting negative spreads for a fourth consecutive month

Contacts

Research Signals · MK-ResearchSignals@ihsmarkit.com

Table 1

Global factor quantile return spread performance snapshot, Jul 2020

Factor	Factor Group	US Large Cap	US Small Cap	Developed Europe	Developed Pacific ex Japan	Japan Standard Cap	Emerging Markets
Book-to-Market		-6.24	-3.06	-7.39	-3.15	-5.38	-3.51
Forward 12-M EPS-to-Enterprise Value	Deep Value	1.87	5.72	3.50	6.72	4.50	-0.08
TTM EBITDA-to-Enterprise Value		-4.84	3.02	-6.82	2.70	-1.07	-0.83
TTM Free Cash Flow-to-Enterprise Value		1.19	2.84	-4.52	-2.04	1.90	-0.04
Industry Relative Leading 4-QTRs EPS to Price	Relative Value	0.80	2.75	-1.07	1.71	2.20	-2.11
Industry Relative TTM Dividend Yield		-2.25	-2.10	-3.14	-5.75	-2.61	-1.74
Fixed Assets Turnover Ratio	Management Quality	2.19	10.28	2.04	3.67	4.32	1.19
Inventory Turnover Ratio		-1.21	2.13	0.77	6.13	4.70	-0.81
Net Operating Asset Turnover		4.75	8.48	0.22	1.25	1.41	2.76
Change in Accruals to Assets	Earnings Quality	-1.30	2.17	0.91	-5.45	-1.96	1.00
Change in TTM COGS vs. Inventory Level		3.00	0.29	-2.28	1.90	-0.30	-0.79
Change in TTM Sales vs. Accounts Receivable		3.68	2.21	1.91	-3.18	-4.87	-0.07
Working Capital Accruals		2.15	-0.64	0.25	0.12	-0.55	-0.31
1-yr Growth in TTM Free Cash Flow	Historical Growth	2.45	3.51	-0.80	-0.81	1.36	2.41
Reinvestment Rate		-0.36	6.60	0.73	1.58	2.57	0.30
Average Monthly Trading Volume-to-Market Cap	Liquidity, Risk & Size	-0.98	7.67	-4.69	-2.87	-5.76	2.55
60-Month Beta		6.00	0.05	2.77	0.89	1.75	-4.01
Asset Quality Index		-0.55	1.32	-2.50	0.26	-0.62	0.30
Operating Leverage		0.83	-1.75	2.66	-2.98	2.35	0.54
Natural Logarithm of Market Capitalization		-5.53	-5.31	-3.41	-4.47	-2.93	1.92
2-Year Ahead EPS Growth	Earnings Momentum	-1.99	1.05	-6.98	-0.52	-8.26	-0.09
3-M Revision in FY2 EPS Forecasts		10.08	1.66	10.04	9.31	8.62	5.66
Real Earnings Surprise		1.14	2.38	0.84	0.47	3.87	1.14
24-Month Value at Risk	Price Momentum	8.37	-0.44	4.76	4.19	4.49	-1.66
5-day Industry Relative Return		-4.41	-1.56	-2.47	-2.53	-7.94	0.43
Industry-adjusted 12-month Relative Price Strength		7.81	6.47	6.49	6.90	7.12	4.07
Rational Decay Alpha		8.30	0.58	4.64	1.66	4.27	4.78
Demand Supply Ratio	Short Sentiment	0.76	-0.37	1.71	-4.46	3.84	-1.91
Implied Loan Rate		3.17	1.74	-1.43	-10.08	-1.04	-0.24

Source: IHS Markit

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United States

US Large Cap

US manufacturing operating conditions improved for the first time since February. The PMI posted 50.9 in July, up from 49.8 in June. While marginal, the growth stemmed from the first upturns in output and new orders for five months, as client demand picked up modestly. However, a more encouraging note was the rise in business confidence to a five-month high, at the same time that equities notched their fourth consecutive monthly advance.

Momentum and value measures swapped places once again among the top (Table 2) and bottom (Table 3) performing factors for US large caps in July. 6-Month Active Return with 1-Month Lag (14.06%), a momentum indicator, and 36-Month Active Return with 1-Month Lag (-10.83%), a price reversal value surrogate, topped the respective lists, with an average deviation in spread of 20 percentage points since the start of the year, compared with 11 percentage points the prior six months (Figure 1). We also highlight outperformance to Earnings Momentum measures including Averaged Last 6-M EPS Revisions for FY2 (10.65%) and underperformance to 5-yr Relative TTM Sales-to-Price (-10.10%).

Table 2

US Large Cap top decile return spread factor performance, Jul 2020

Factor	Decile spread (%)	Factor group
6-Month Active Return with 1-Month Lag	14.06	Price Momentum
50-200 Day Stock Price Ratio	13.93	Price Momentum
12-Month Active Return with 1-month Lag	13.43	Price Momentum
15/36 Week Stock Price Ratio	13.27	Price Momentum
18-Month Active Return with 1-Month Lag	13.16	Price Momentum
24-Month Active Return with 1-Month Lag	12.99	Price Momentum
4-52 Week Price Oscillator	12.93	Price Momentum
26-Week Relative Price Strength	12.89	Price Momentum
9-Month Active Return with 1-Month Lag	12.51	Price Momentum
39-Week Return with 4-week Lag	12.32	Price Momentum
Averaged Last 6-M EPS Revisions for FY2	10.65	Earnings Momentum
52-Week High	10.56	Price Momentum
Fama-French Momentum	10.53	Price Momentum
3-M Revision in FY2 EPS Forecasts	10.08	Earnings Momentum
1-Month Realized Stock Return Volatility	9.94	Liquidity, Risk & Size

Source: IHS Markit

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Table 3

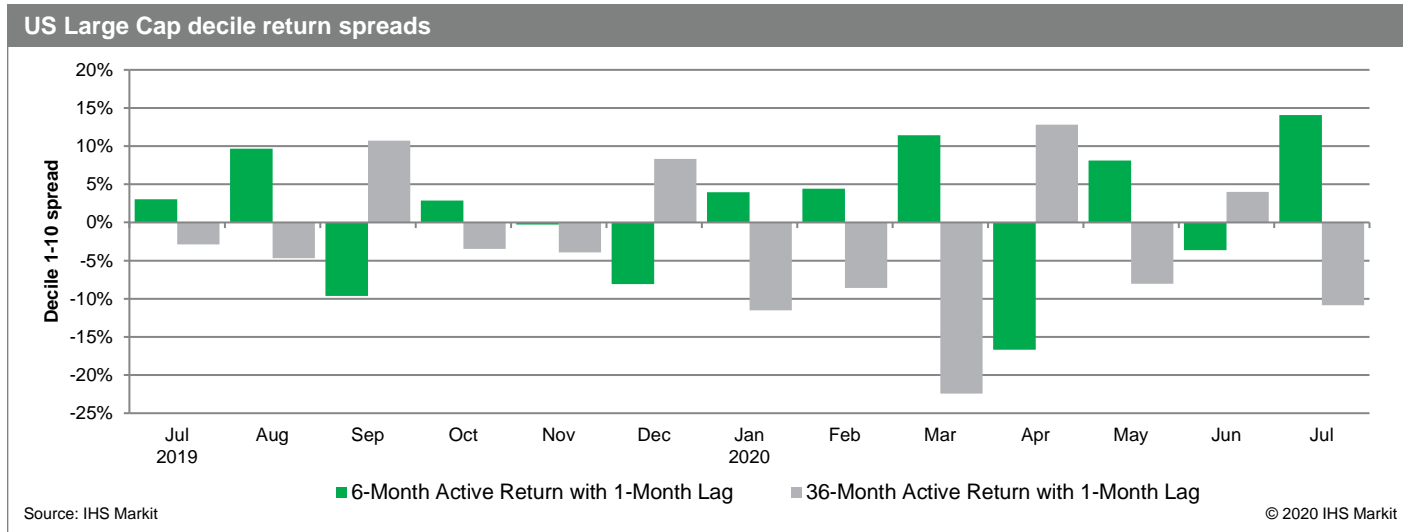
US Large Cap bottom decile return spread factor performance, Jul 2020

Factor	Decile spread (%)	Factor group
36-Month Active Return with 1-Month Lag	-10.83	Price Momentum
36-Month Sharpe Ratio	-10.16	Price Momentum
5-yr Relative TTM Sales-to-Price	-10.10	Relative Value
60-Month Active Return with 1-Month Lag	-10.03	Price Momentum
Altman Z Score	-9.85	Liquidity, Risk & Size
Price-to-Total Assets	-9.52	Deep Value
Treynor Index	-9.49	Price Momentum
Sortino Ratio	-9.39	Price Momentum
Price-to-Book Return-on-Equity Combination	-8.85	Deep Value
Graham Number Fair Value Premium	-8.57	Deep Value

Source: IHS Markit

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Figure 1



US Small Cap

Small caps experienced a notable divergence from large caps on the list of top performing factors in July (Table 4), with a particular focus on sales-based measures. Cash-to-Sales (13.66%), a Management Quality measure, took the lead, with a 16.7 percentage point increase in month-on-month spread (Figure 2). Likewise, strong performance was recorded by Assets Turnover Ratio (13.65%) and Leading 12 Month Sales Yield (12.80%). However, investors' attention particularly to sales-based valuation measures was focused on recent sales, as 5-yr Relative TTM Sales-to-Price (-8.01%) made its way to the list of bottom performing factors for the month (Table 5).

Table 4

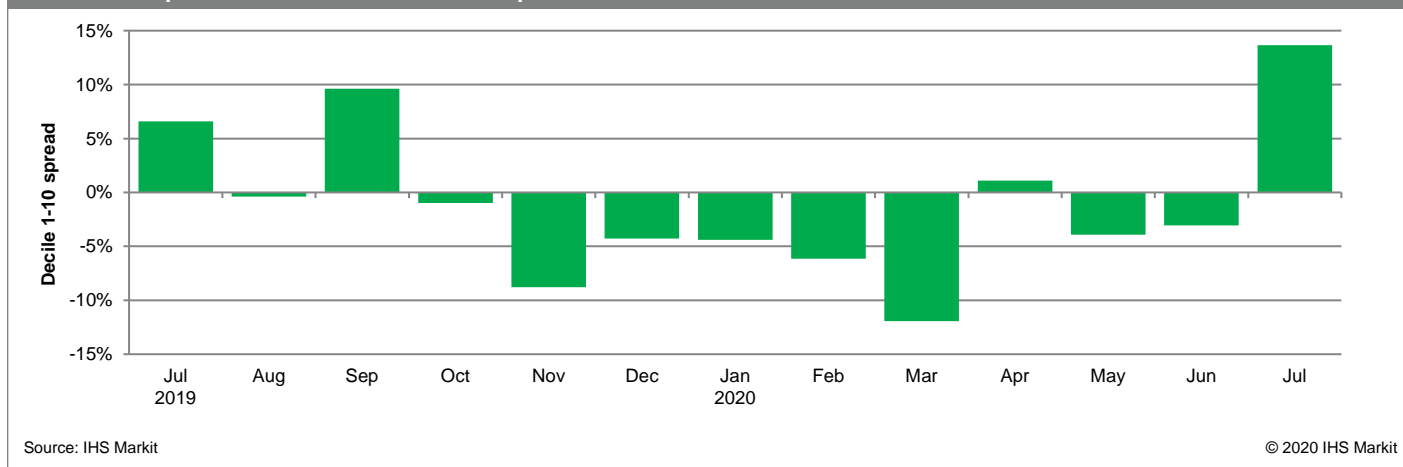
US Small Cap top decile return spread factor performance, Jul 2020

Factor	Decile spread (%)	Factor group
Cash-to-Sales	13.66	Management Quality
TTM Gross Profit to Assets	13.65	Management Quality
Assets Turnover Ratio	13.30	Management Quality
Basic Defensive Interval	13.17	Liquidity, Risk & Size
Leading 12 Month Sales Yield	12.80	Deep Value
Forward Return on Equity	12.02	Management Quality
Time Weighted Sales Yield	11.95	Deep Value
Trailing 12-Month Sales to Invested Capital	11.73	Management Quality
Natural Logarithm of TTM Sales (USD)	11.65	Liquidity, Risk & Size
Cash & Equivalents-to-Current Liabilities	11.64	Liquidity, Risk & Size
Natural Logarithm of TTM Sales	11.15	Liquidity, Risk & Size
TTM Sales-to-Price	10.90	Deep Value
Asset Composition	10.47	Liquidity, Risk & Size
Time Weighted EBITDA/ EV	10.39	Deep Value
Working Capital-to-Trailing 12-Month Sales	10.36	Management Quality

Source: IHS Markit

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Figure 2

US Small Cap Cash-to-Sales decile return spreads

Source: IHS Markit

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Table 5

US Small Cap bottom decile return spread factor performance, Jul 2020

Factor	Decile spread (%)	Factor group
3-yr MAD of TTM Sales	-9.57	Liquidity, Risk & Size
Net Asset Value to Price	-9.57	Deep Value
TTM Gross Profit Margin	-9.31	Management Quality
Average Payable Period	-8.73	Management Quality
5-yr Relative Book-to-Market	-8.67	Relative Value
Ohlson Bankruptcy Score	-8.21	Liquidity, Risk & Size
Stock Illiquidity	-8.12	Liquidity, Risk & Size
Average Trading Volume in Preceding 6-month	-8.03	Price Momentum
5-yr Relative TTM Sales-to-Price	-8.01	Relative Value
Inventory-to-Total Assets	-7.45	Management Quality

Source: IHS Markit

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Europe

The eurozone manufacturing economy recorded its first growth in 18 months during July as output and demand continued to recover in line with further easing on lockdown restrictions. The PMI strengthened to 51.8 in July, up from 47.4 in June. All countries recorded PMI readings above 50.0, with the exception of Greece and the Netherlands, led by Spain and Austria. Business confidence continued to recover; however, stock market optimism was more subdued, with markets finishing mostly flat for the month, as concerns of a second wave of virus infections weighed on prices.

Factors at the top (Table 6) and bottom (Table 7) extremes of the performance spectrum in Developed Europe in July closely resembled that of US large caps, with momentum and value measures dominating the respective lists. 26-Week Relative Price Strength (13.52%) was the top performer, with the distribution of decile returns demonstrating a high conviction trade toward this signal (Figure 3). 5-yr Relative TTM Sales-to-Price (-12.34%) was the weakest performing signal, while Oil Prices Sensitivity (-8.61%) captured negative sentiment toward stocks with the highest exposure to oil prices.

Table 6

Developed Europe top decile return spread factor performance, Jul 2020

Factor	Decile spread (%)	Factor group
26-Week Relative Price Strength	13.52	Price Momentum
15/36 Week Stock Price Ratio	13.51	Price Momentum
50-200 Day Stock Price Ratio	13.36	Price Momentum
6-Month Active Return with 1-Month Lag	13.22	Price Momentum
39-Week Return with 4-week Lag	12.49	Price Momentum
9-Month Active Return with 1-Month Lag	12.39	Price Momentum
12-Month Active Return with 1-month Lag	11.96	Price Momentum
Averaged Last 6-M EPS Revisions for FY2	10.92	Earnings Momentum
24-Month Active Return with 1-Month Lag	10.91	Price Momentum
18-Month Active Return with 1-Month Lag	10.84	Price Momentum
Averaged Last 6-M EPS Revisions for FY1	10.54	Earnings Momentum
52-Week High	10.31	Price Momentum
3-M Revision in FY2 EPS Forecasts	10.04	Earnings Momentum
Time Weighted Earnings Revision	9.86	Earnings Momentum
30-75 Week Stock Price Ratio	9.37	Price Momentum

Source: IHS Markit

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Table 7

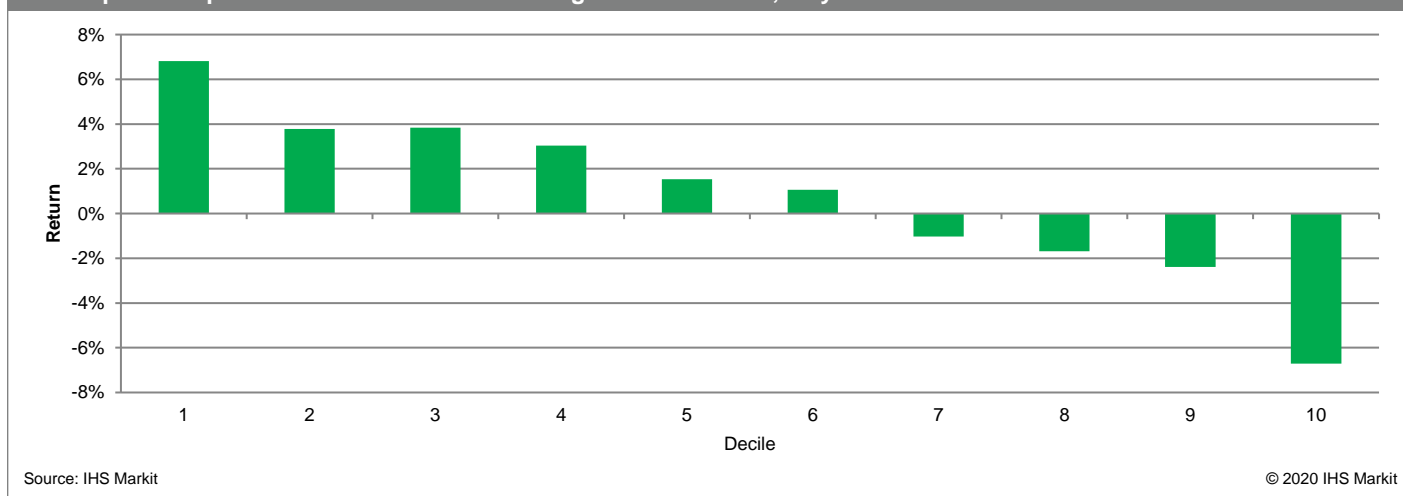
Developed Europe bottom decile return spread factor performance, Jul 2020

Factor	Decile spread (%)	Factor group
5-yr Relative TTM Sales-to-Price	-12.34	Relative Value
60-Month Active Return with 1-Month Lag	-12.08	Price Momentum
60-Month Alpha	-11.46	Price Momentum
36-Month Active Return with 1-Month Lag	-11.37	Price Momentum
5-yr Relative Book-to-Market	-10.99	Relative Value
5-yr Relative TTM EBITDA-to-Price	-9.87	Relative Value
Industrial Production Sensitivity	-9.65	Macro
Current Liabilities-to-Price	-9.47	Liquidity, Risk & Size
TTM EBITDA-to-Price	-8.76	Deep Value
Oil Prices Sensitivity	-8.61	Macro

Source: IHS Markit

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Figure 3

Developed Europe 26-Week Relative Price Strength decile returns, July 2020

Source: IHS Markit

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Asia-Pacific

Encouraging signs were seen in July manufacturing PMI readings in the two largest Asian economies of China and Japan, though they continued to straddle the 50.0 no-change mark. In China, the July headline figure came in at 52.8, up from 51.2 in June, the strongest reading since January 2011, supported by steeper increases in output and new orders. On the other hand, in Japan the manufacturing PMI posted at 45.2 in July, up from 40.1 in June, though hints of a turnaround were observed in much softer rates of contraction in output and new orders. Stocks in China also fared better once again in July, as investors favored China's progress on the road to recovery from the coronavirus pandemic.

Momentum indicators remained the top factor performers in developed Pacific markets outside Japan in July (Table 8), particularly those focused on medium-term durations, led by 6-Month Active Return with 1-Month Lag (16.39%). Conversely, factors which lagged for the month (Table 9) include several risk measures. 24-Month Residual Return Variance (-12.71%) turned in the weakest performance, with a cumulative spread of -35.6% over the past five months as investors sought higher risk stocks since the March lows (Figure 4).

While momentum indicators also dominated the list of top performing factors (Table 10) in Japan in July, value measures were more prominent on the laggard board (Table 11). The lists were topped by 52-Week High (13.72%) and 5-yr Relative Book-to-Market (-11.26%), respectively. The distribution of decile returns for the factors were near images of each other (Figure 5), as investors avoided stocks trading furthest from their 52-week highs and those with the lowest relative valuations. Other results of interest include outperformance to FY1 EPS Estimates Dispersion (11.71%) while 2-Year Ahead EPS Growth (-8.26%) underperformed.

Table 8

Developed Pacific exJapan top decile return spread factor performance, Jul 2020		
Factor	Decile spread (%)	Factor group
6-Month Active Return with 1-Month Lag	16.39	Price Momentum
50-200 Day Stock Price Ratio	15.88	Price Momentum
15/36 Week Stock Price Ratio	15.28	Price Momentum
39-Week Return with 4-week Lag	14.00	Price Momentum
9-Month Active Return with 1-Month Lag	13.70	Price Momentum
6-Month Nominal Change in 36-Month Alpha	13.43	Price Momentum
1-Year Price Momentum Indicator	13.08	Price Momentum
Market Cap per Analyst	12.85	Liquidity, Risk & Size
26-Week Relative Price Strength	12.81	Price Momentum
6-Month Nominal Change in 12-Month Alpha	12.57	Price Momentum
6-Month Nominal Change in 18-Month Alpha	12.43	Price Momentum
12-Month Active Return with 1-month Lag	12.37	Price Momentum
Averaged Last 6-M EPS Revisions for FY2	12.22	Earnings Momentum
2-Year Projected EPS Growth	11.61	Earnings Momentum
3-M Revision in FY2 EPS Forecasts: Dispersion Relative	11.11	Earnings Momentum

Source: IHS Markit

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Table 9

Developed Pacific exJapan bottom decile return spread factor performance, Jul 2020		
Factor	Decile spread (%)	Factor group
24-Month Residual Return Variance	-12.71	Price Momentum
Trading Turnover Ratio	-12.52	Liquidity, Risk & Size
Leading 1-Year Regular Dividend Payout	-12.50	Dividend Forecast
Price Above Last 260-day Lowest Trading Price	-11.31	Price Momentum
60-Day Residual Risk	-11.00	Liquidity, Risk & Size
Regression Error of 60-Month CAPM	-10.91	Liquidity, Risk & Size
5-yr Relative Book-to-Market	-10.71	Relative Value
Stock Return Volatility	-10.48	Liquidity, Risk & Size
Implied Loan Rate	-10.08	Short Sentiment
Average Trading Volume in Preceding 6-month	-10.07	Price Momentum

Source: IHS Markit

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Figure 4

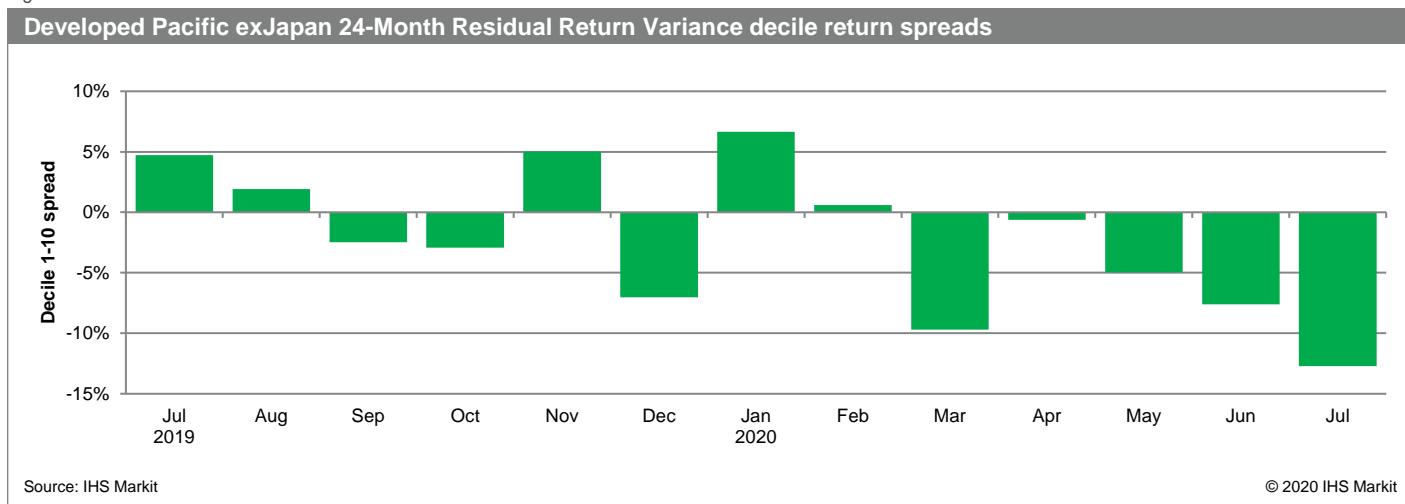


Table 10

Japan Standard Cap top decile return spread factor performance, Jul 2020

Factor	Decile spread (%)	Factor group
52-Week High	13.72	Price Momentum
26-Week Relative Price Strength	13.22	Price Momentum
50-200 Day Stock Price Ratio	12.71	Price Momentum
15/36 Week Stock Price Ratio	12.40	Price Momentum
FY1 EPS Estimates Dispersion	11.71	Earnings Momentum
6-Month Active Return with 1-Month Lag	11.24	Price Momentum
Fama-French Momentum	10.79	Price Momentum
9-Month Active Return with 1-Month Lag	10.45	Price Momentum
Std Dev of FY1 EPS Estimates-to-Price	10.29	Earnings Momentum
39-Week Return with 4-week Lag	10.16	Price Momentum
3-M Revision in FY1 EPS Forecasts	10.11	Earnings Momentum
3-M Revision in FY1 EPS Forecasts: Dispersion Relative	10.10	Earnings Momentum
24-Month Active Return with 1-Month Lag	10.01	Price Momentum
Street Revision Magnitude	9.98	Earnings Momentum
6-Month Nominal Change in 36-Month Alpha	9.92	Price Momentum

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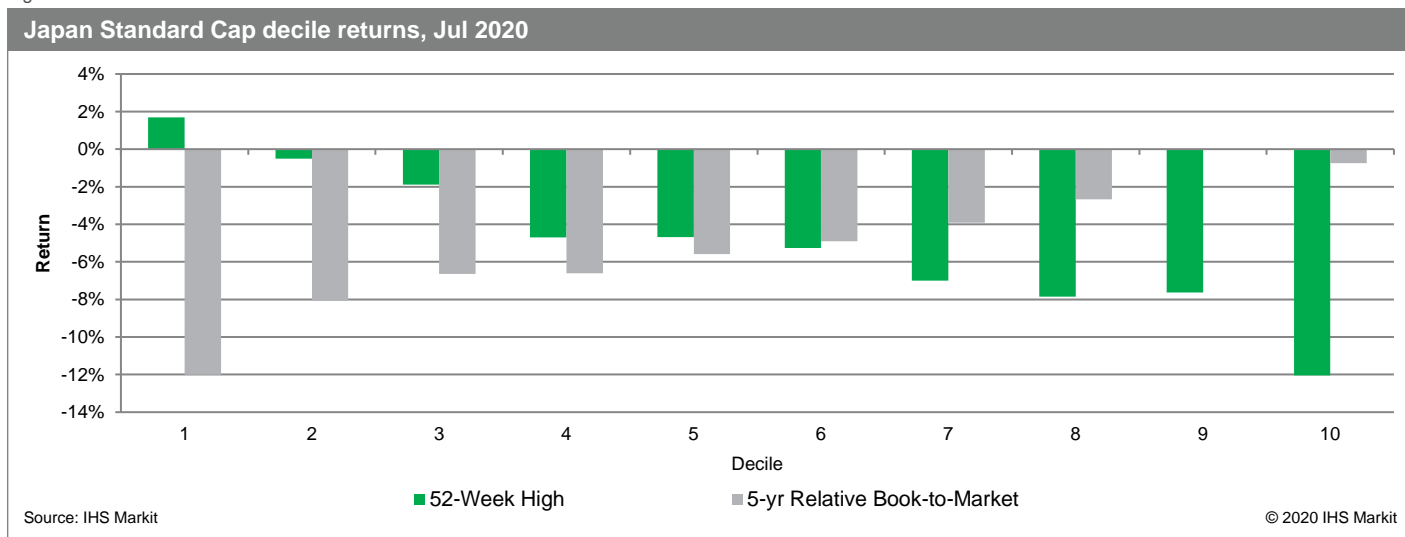
Table 11

Japan Standard Cap bottom decile return spread factor performance, Jul 2020

Factor	Decile spread (%)	Factor group
5-yr Relative Book-to-Market	-11.26	Relative Value
14 Day Relative Strength Index	-10.41	Price Momentum
Time Weighted Cash Yield	-9.32	Deep Value
Price Above Last 260-day Lowest Trading Price	-8.68	Price Momentum
Leading 12 Month Cash Yield	-8.40	Deep Value
2-Year Ahead EPS Growth	-8.26	Earnings Momentum
5-day Industry Relative Return	-7.94	Price Momentum
36-Month Active Return with 1-Month Lag	-7.84	Price Momentum
Asset Composition	-7.67	Liquidity, Risk & Size
Altman Z Score	-7.61	Liquidity, Risk & Size

Source: IHS Markit © 2020 IHS Markit

Figure 5



Emerging Markets

We wrap up the report with a review of top (Table 12) and bottom (Table 13) performing factors in emerging markets in July. In a reversal from the prior month, valuation measures dropped to the laggard board and were replaced by momentum measures. Representatives from each style include 39-Week Return with 4-week Lag (8.14%), the highest performer across our factor library, and 3-Month Active Return, a short-term price reversal metric. We also highlight underperformance to risk measures such as Product of Beta and Sigma (-5.29%), as investors favored higher risk names over the last four months, captured by a cumulative spread of -25.3% (Figure 6).

Table 12

Emerging Markets top quintile return spread factor performance, Jul 2020		
Factor	Decile spread (%)	Factor group
39-Week Return with 4-week Lag	8.14	Price Momentum
1-Year Price Momentum Indicator	7.83	Price Momentum
9-Month Active Return with 1-Month Lag	7.61	Price Momentum
6-Month Active Return with 1-Month Lag	7.04	Price Momentum
30-75 Week Stock Price Ratio	6.51	Price Momentum
12-Month Active Return with 1-month Lag	6.50	Price Momentum
50-200 Day Stock Price Ratio	6.50	Price Momentum
26-Week Relative Price Strength	6.32	Price Momentum
Fama-French Momentum	6.17	Price Momentum
Averaged Last 6-M EPS Revisions for FY2	6.09	Earnings Momentum
3-M Revision in FY2 EPS Forecasts: Dispersion Relative	5.94	Earnings Momentum
3-M Revision in FY2 EPS Forecasts	5.66	Earnings Momentum
52-Week High	5.66	Price Momentum
6-Month Nominal Change in 36-Month Alpha	5.52	Price Momentum
18-Month Active Return with 1-Month Lag	5.45	Price Momentum

Source: IHS Markit

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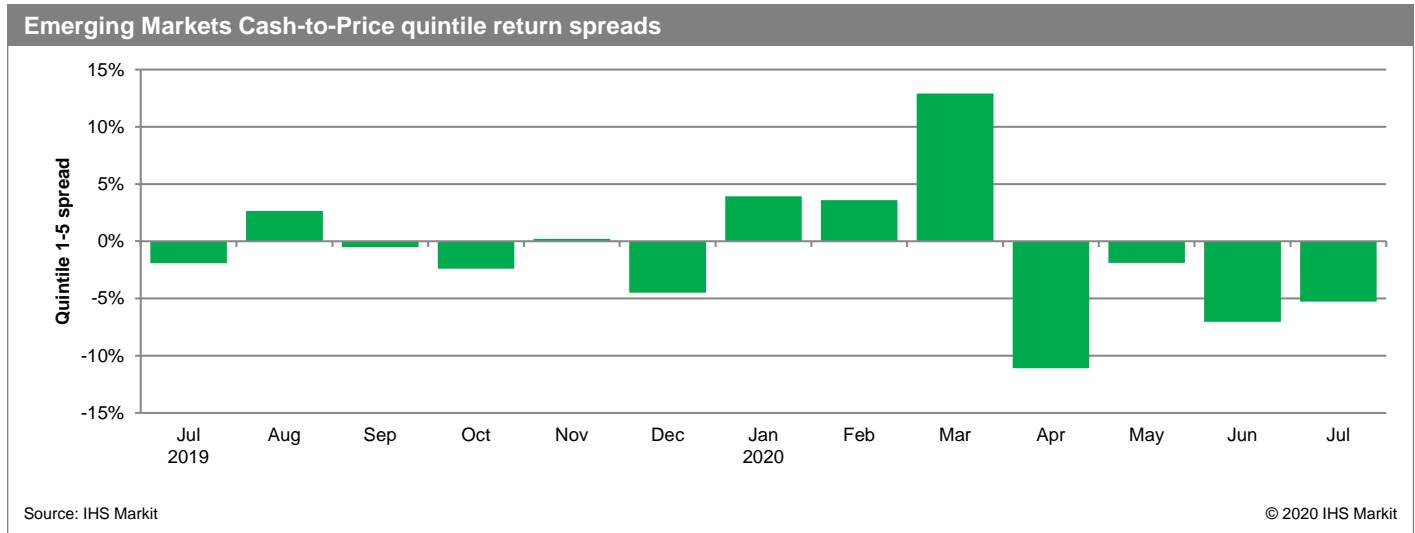
Table 13

Emerging Markets bottom quintile return spread factor performance, Jul 2020		
Factor	Decile spread (%)	Factor group
Price Above Last 260-day Lowest Trading Price	-7.30	Price Momentum
3-Month Active Return	-5.63	Price Momentum
5-yr Relative Book-to-Market	-5.47	Relative Value
5-yr Relative TTM Sales-to-Price	-5.31	Relative Value
Product of Beta and Sigma	-5.29	Liquidity, Risk & Size
Stock Return Volatility	-5.28	Liquidity, Risk & Size
60-Month Alpha	-5.20	Price Momentum
Regression Error of 60-Month CAPM	-4.87	Liquidity, Risk & Size
24-Month Residual Return Variance	-4.83	Price Momentum
5-yr Relative TTM EBITDA-to-Price	-4.41	Relative Value

Source: IHS Markit

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Figure 6



Source: IHS Markit

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Support@ihsmarkit.com

Americas: +1 877 762 7548

Europe, Middle East, and Africa: 00800 6275 4800

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