

# Stocks rally as bears take a summer recess

July 2022

## Research Signals

US stocks led a global equity rally in major developed markets in July, as momentum factors enjoyed their day in the sun (Table 1). However, the bulls will be tested once again as the bears return from leave in the face of central bank rate increases, increased recession risks including a second consecutive quarter of negative GDP in the US and a two-year low in the J.P.Morgan Global Manufacturing PMI™, with business optimism dipping to its lowest level since May 2020.

- US: High risk shares returned to favor while highly shorted shares suffered, as demonstrated by underperformance of 60-Month Beta and Demand Supply Ratio, respectively
- Developed Europe: Deep Value signals including Book-to-Market and TTM Free Cash Flow-to-Enterprise Value posted negative spreads in July
- Developed Pacific: Performance of high momentum shares surged last month in markets outside Japan, resulting in a spike in Industry-adjusted 12-month Relative Price Strength performance
- Emerging markets: A rebound in investors' favor towards momentum benefitted stocks with attractive Rational Decay Alpha scores

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Table 1

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

Factor	Factor Group	US Large	US	Developed	Developed	Japan	Emerging
		Cap	Small Cap	Europe	Pacific ex Japan	Standard Cap	Markets
Book-to-Market		-4.41	-1.29	-7.43	-8.80	-6.51	-2.69
Forward 12-M EPS-to-Enterprise Value	Deep Value	-0.57	2.97	-0.38	-1.44	0.96	-2.07
TTM EBITDA-to-Enterprise Value		-0.15	0.39	-2.21	0.70	1.67	0.42
TTM Free Cash Flow-to-Enterprise Value		-4.09	0.11	-3.23	-0.59	1.76	-0.50
Industry Relative Leading 4-QTRs EPS to Price	Relative Value	-1.95	2.38	-2.36	-4.86	-0.69	-1.60
Industry Relative TTM Dividend Yield		-4.00	-2.75	-1.78	-6.33	1.19	-3.29
Fixed Assets Turnover Ratio	Management Quality	-0.22	-1.22	-0.11	-8.66	4.30	-0.18
Inventory Turnover Ratio		0.47	0.67	3.83	5.00	2.99	-0.83
Net Operating Asset Turnover		2.38	0.60	2.65	-5.04	2.12	0.95
Change in Accruals to Assets	Earnings Quality	-2.21	2.40	2.00	-2.26	0.65	-0.35
Change in TTM COGS vs. Inventory Level		0.13	-5.20	-0.59	-4.17	-1.49	-0.24
Change in TTM Sales vs. Accounts Receivable		1.97	-4.01	-3.15	-4.90	0.90	1.31
Working Capital Accruals		4.91	3.19	-0.06	0.81	1.19	0.56
1-yr Growth in TTM Free Cash Flow	Historical Growth	-2.85	-1.95	-0.89	-1.96	1.42	-1.57
Reinvestment Rate		2.45	2.92	1.70	0.62	4.35	0.91
Average Monthly Trading Volume-to-Market Cap	Liquidity, Risk & Size	1.11	-0.87	-4.29	1.64	-1.79	-3.28
60-Month Beta		-8.25	-9.94	-4.88	-14.11	-4.55	-0.85
Asset Quality Index		0.26	0.70	-0.49	6.62	-1.02	1.04
Operating Leverage		-1.00	1.45	-0.33	1.70	1.29	0.57
Natural Logarithm of Market Capitalization		0.71	-2.28	-2.04	8.15	0.76	-3.42
2-Year Ahead EPS Growth	Earnings Momentum	2.07	-3.64	1.60	-1.22	-1.16	2.06
3-M Revision in FY2 EPS Forecasts		-0.55	-1.60	-3.05	5.14	-1.83	0.09
Real Earnings Surprise		-0.43	3.06	-1.43	0.83	-1.27	1.15
24-Month Value at Risk	Price Momentum	-3.71	-0.76	-6.92	-3.55	-4.72	0.83
5-day Industry Relative Return		0.21	0.07	-2.25	0.45	-2.23	-0.76
Industry-adjusted 12-month Relative Price Strength		-0.66	1.16	1.29	13.19	0.64	2.17
Rational Decay Alpha		2.79	3.29	6.91	16.11	2.85	4.04
Demand Supply Ratio	Short Sentiment	-1.57	-5.48	-0.22	-4.07	-0.47	-2.07
Implied Loan Rate		-3.80	-3.10	-0.34	1.82	-1.52	-2.79

Source: IHS Markit

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## United States

### US Large Cap

The US manufacturing sector signaled a further weak improvement in operating conditions in July, with the headline PMI figure easing to 52.2, from 52.7 in June, its lowest reading in two years, as production fell on weakened demand conditions. Despite slowing economic data, including a second consecutive quarter of negative GDP, stocks wrapped up their best month this year on positive big tech earnings and the Federal Reserve Chair Powell's statement that he did not think the US was in a recession yet.

Dividend Forecast factors took on a prominent role among the top performing factors for US large caps in July (Table 2). 1-Year Percentage Growth in Regular Dividend (5.68%) was one such measure which saw a strong bounce in performance last month (Figure 1). We recently published a [focus report](#) on this proprietary set of factors, sourced from our Dividend Forecasting team, which highlighted outperformance during the 2022 market rout. At the opposite extreme, factors which underperformed for the month (Table 3) include 60-Month Beta (-8.25%) and 60-Month Active Return with 1-Month Lag (-7.87%), indicating investor preference for high beta and long-term momentum names.

Table 2

#### US Large Cap top decile return spread factor performance, Jul 2022

Factor	Decile spread	Factor group
Second Preceding 6-month Return	6.56	Price Momentum
1-Year Percentage Growth in Regular Dividend	5.68	Dividend Forecast
2-Year Percentage Growth in Regular Dividend	5.61	Dividend Forecast
2-Year Ahead Regular Dividend growth	5.52	Dividend Forecast
1-Year Ahead Regular Dividend growth	5.38	Dividend Forecast
14 Day Relative Strength Index	5.37	Price Momentum
3-Month Active Return	5.15	Price Momentum
Working Capital Accruals	4.91	Earnings Quality
Total Debt to Total Assets	4.62	Liquidity, Risk & Size
Comprehensive Debt to Total Assets	4.49	Liquidity, Risk & Size
Yearly TTM Total Sales Growth Rate	4.36	Historical Growth
5-yr Relative TTM EBITDA-to-Price	4.27	Relative Value
24-Month Active Return with 1-Month Lag	4.20	Price Momentum
Capital Gearing Ratio	4.04	Liquidity, Risk & Size
Street Rating Revision	3.92	Earnings Momentum

Source: IHS Markit

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Figure 1

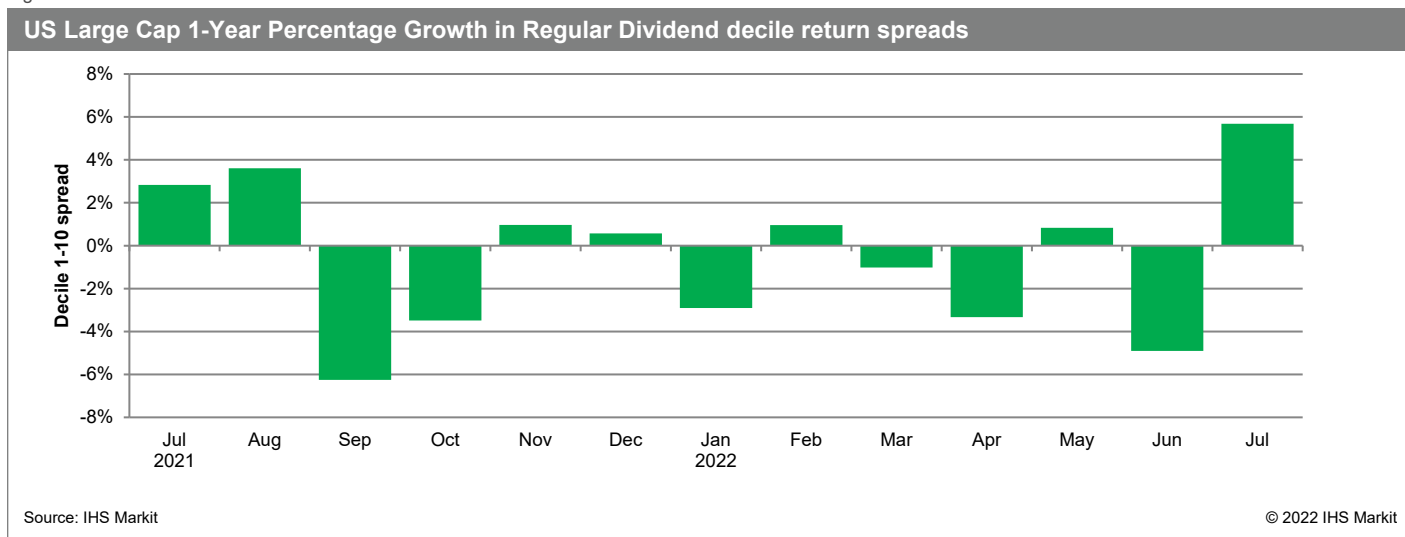


Table 3

**US Large Cap bottom decile return spread factor performance, Jul 2022**

Factor	Decile spread	Factor group
60-Month Beta	-8.25	Liquidity, Risk & Size
60-Month Active Return with 1-Month Lag	-7.87	Price Momentum
60-Month Active Return with 12-Month Lag	-7.85	Price Momentum
36-Month Active Return with 1-Month Lag	-6.81	Price Momentum
52-Week High	-6.73	Price Momentum
Tobin q	-6.56	Liquidity, Risk & Size
3-yr MAD of TTM Sales	-6.34	Liquidity, Risk & Size
1-Month Realized Stock Return Volatility	-6.16	Liquidity, Risk & Size
Product of Beta and Sigma	-6.08	Liquidity, Risk & Size
1-yr Change in Total Assets	-5.87	Historical Growth

Source: IHS Markit © 2022 IHS Markit

## US Small Cap

Both Price Momentum and Deep Value factors sat together on the list of top performing factors for small caps in July (Table 4). Second Preceding 6-month Return (9.89%) and Time Weighted Earnings Yield (5.08%) led the respective groups, continuing an overall trend of positive performance over the past year (Figure 2) with average monthly spreads of 3.41% and 6.99%, respectively. On the other hand, Short Sentiment measures such as Utilization (-7.45%) underperformed last month (Table 5), indicating that investors were willing to disregard risks associated with highly shorted shares.

Table 4

US Small Cap top decile return spread factor performance, Jul 2022		
Factor	Decile spread	Factor group
Second Preceding 6-month Return	9.89	Price Momentum
24-Month Active Return with 1-Month Lag	9.72	Price Momentum
Year-over-year Change in Leverage	8.45	Liquidity, Risk & Size
3-Month Active Return	6.59	Price Momentum
Short Concentration Ratio	6.22	Short Sentiment
18-Month Active Return with 1-Month Lag	5.98	Price Momentum
On Loan Value Concentration	5.77	Short Sentiment
1-Month Active Return	5.71	Price Momentum
Inventory Value Concentration	5.65	Short Sentiment
Time Weighted Earnings Yield	5.08	Deep Value
Change in Real Earnings Surprise	4.87	Earnings Momentum
2-Month Active Return	4.50	Price Momentum
30-75 Week Stock Price Ratio	4.29	Price Momentum
Cyclically Adjusted Earnings-to-Price	4.19	Deep Value
Cash Earnings Return On Equity	4.19	Management Quality

Source: IHS Markit

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Figure 2

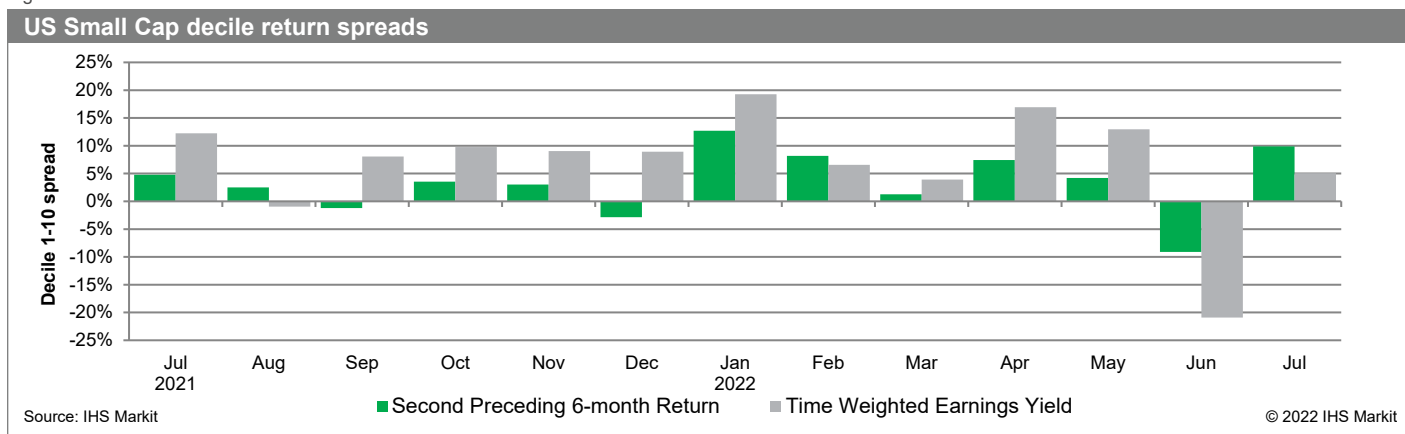


Table 5

US Small Cap bottom decile return spread factor performance, Jul 2022		
Factor	Decile spread	Factor group
60-Month Active Return with 1-Month Lag	-12.18	Price Momentum
36-Month Active Return with 1-Month Lag	-11.90	Price Momentum
60-Month Beta	-9.94	Liquidity, Risk & Size
1-yr Change in Total Assets	-9.55	Historical Growth
20-Day Volume Volatility to Price Volatility	-9.30	Liquidity, Risk & Size
Sortino Ratio	-8.88	Price Momentum
60-Month Active Return with 12-Month Lag	-8.73	Price Momentum
Altman Z Score	-7.74	Liquidity, Risk & Size
Utilization	-7.45	Short Sentiment
Industry Relative TTM Sales-to-Price	-7.30	Relative Value

Source: IHS Markit

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## Europe

The eurozone manufacturing sector fell into contraction territory in July, with the PMI declining to 49.8, from 52.1 in June, on the sharpest decline in production since the initial wave of strict pandemic lockdowns in May 2022. The downturn reflected deteriorating manufacturing sector conditions across the largest economies in the euro area, with Germany, France, Italy and Spain all recording sub-50.0 readings. Despite growing recession risks, stocks logged their best monthly performance since November 2020 on strong corporate earnings.

High momentum shares powered higher in Developed Europe in July, sending measures such as Second Preceding 6-month Return (8.32%) to the top of the factor leaderboard (Table 6). Conversely, Deep Value measures were among the weakest performers for the month (Table 7), including Edwards-Bell-Ohlson Value-to-Price (-8.71%). Taking a look at the distribution of decile returns across each measure (Figure 3), we find generally systematic trading across each signal, with a near-monotonic distribution of decile returns.

Table 6

Developed Europe top decile return spread factor performance, Jul 2022		
Factor	Decile spread	Factor group
Second Preceding 6-month Return	8.32	Price Momentum
3-Month Active Return	7.95	Price Momentum
Rational Decay Alpha	6.91	Price Momentum
Std Dev of FY2 EPS Estimates-to-Price	6.74	Earnings Momentum
Debt to Market Cap	6.70	Liquidity, Risk & Size
1-Month Active Return	5.92	Price Momentum
Cash Flow Leverage	5.83	Liquidity, Risk & Size
Std Dev of FY1 EPS Estimates-to-Price	5.66	Earnings Momentum
Assets Turnover Ratio	5.46	Management Quality
2-Month Active Return	5.11	Price Momentum
FY1 EPS Estimates Dispersion	5.04	Earnings Momentum
14 Day Relative Strength Index	4.99	Price Momentum
Net Debt to EBITDA	4.98	Management Quality
Liquidity Coefficient	4.92	Liquidity, Risk & Size
EBITDA-to-Debt	4.52	Liquidity, Risk & Size

Source: IHS Markit

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Table 7

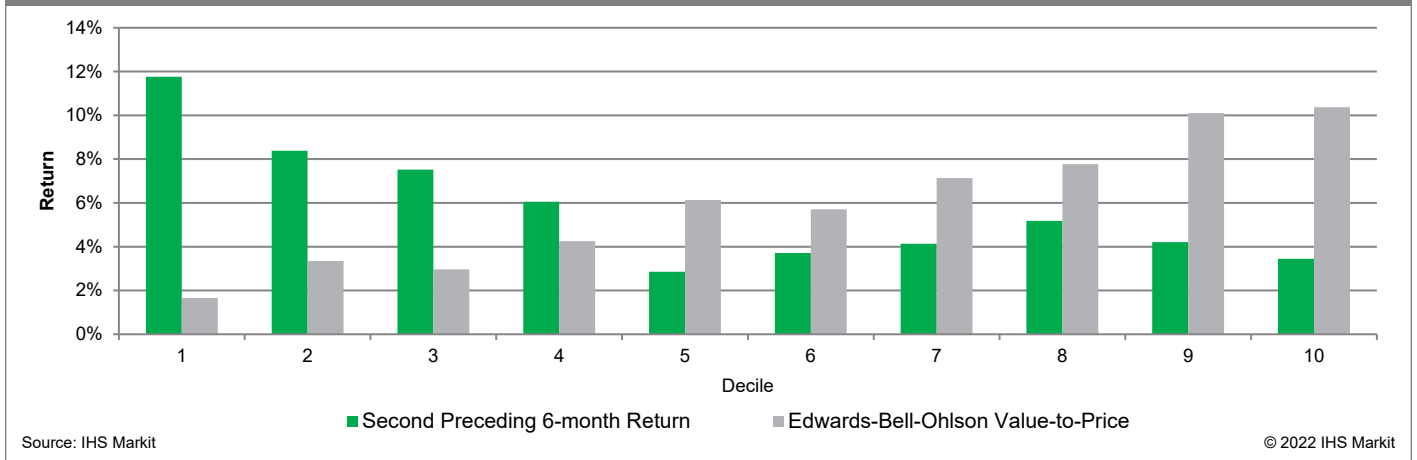
**Developed Europe bottom decile return spread factor performance, Jul 2022**

Factor	Decile spread	Factor group
60-Month Active Return with 12-Month Lag	-12.34	Price Momentum
Price-to-Total Assets	-12.20	Deep Value
Tobin q	-11.98	Liquidity, Risk & Size
Natural Logarithm of Total Assets (USD)	-10.00	Liquidity, Risk & Size
60-Month Active Return with 1-Month Lag	-9.68	Price Momentum
6-Month Nominal Change in 36-Month Alpha	-9.56	Price Momentum
Edwards-Bell-Ohlson Value-to-Price	-8.71	Deep Value
6-Month Nominal Change in 18-Month Alpha	-8.61	Price Momentum
36-Month Active Return with 1-Month Lag	-8.59	Price Momentum
Leading 12 Month Regular Dividend Yield	-8.48	Dividend Forecast

Source: IHS Markit

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Figure 3

**Developed Europe decile returns, Jul 2022**

Source: IHS Markit

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## Asia-Pacific

Manufacturing operating conditions eased in the two largest Asian economies of China and Japan in July. In China, the manufacturing PMI slipped to 50.4, from June's 13-month high of 51.7, on a softer rise in overall new business. In Japan, the headline PMI dipped further to 52.1 in July, from 52.7 in June, on renewed reductions in output and new orders. However, stocks moved in opposite directions last month, as shares in Japan followed US and European markets higher, while stocks faded in China.

Short-term price reversal metrics were the most highly rewarded factors in developed Pacific markets last month. However, in markets outside Japan, investors also preferred longer term momentum shares, with factors such as Fama-French Momentum (17.56%) mostly filling out the remainder of the list of outperformers in July (Table 8). In fact, this factor traversed from the weakest performer in June to one of the top performers last month, with a significant 44 percentage point month-on-month swing in spread (Figure 4). Taking its place as the weakest performer (Table 9) was 60-Month Beta (-14.11%), while Deep Value measures such as Cash-to-Price (-11.16%) and Net Asset Value to Price (-11.07%) also underperformed.

In Japan, measures of strong corporate fundamentals joined short-term price reversal metrics on the list of outperformers in July (Table 10). For example, Pretax Return on Net Operating Assets (6.68%), a Management Quality indicator, posted its highest spread of the year, with a 14.1 percentage point monthly improvement in performance (Figure 5). At the same time, medium-term momentum remained a weak signal last month, with 26-Week Relative Price Strength (-8.14%) sitting at the top the list of underperformers (Table 11).

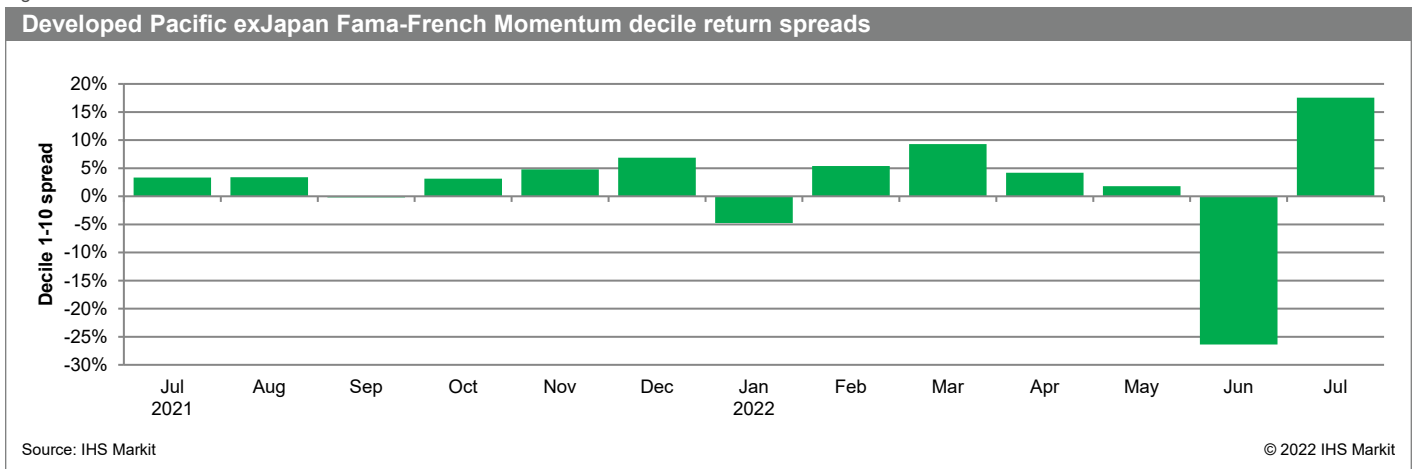
Table 8

Developed Pacific exJapan top decile return spread factor performance, Jul 2022		
Factor	Decile spread	Factor group
1-Month Active Return	20.68	Price Momentum
3-Month Active Return	19.40	Price Momentum
2-Month Active Return	17.85	Price Momentum
Fama-French Momentum	17.56	Price Momentum
12-Month Active Return with 1-month Lag	16.33	Price Momentum
Rational Decay Alpha	16.11	Price Momentum
Second Preceding 6-month Return	15.28	Price Momentum
4-week Industry Relative Return	15.28	Price Momentum
30-75 Week Stock Price Ratio	15.09	Price Momentum
Industry-adjusted 12-month Relative Price Strength	13.19	Price Momentum
Housing Starts Sensitivity	12.83	Macro
24-Month Active Return with 1-Month Lag	12.33	Price Momentum
18-Month Active Return with 1-Month Lag	12.20	Price Momentum
14 Day Relative Strength Index	11.48	Price Momentum
9-Month Active Return with 1-Month Lag	11.11	Price Momentum

Source: IHS Markit

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Figure 4



Source: IHS Markit

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Table 9

Developed Pacific exJapan bottom decile return spread factor performance, Jul 2022		
Factor	Decile spread	Factor group
60-Month Beta	-14.11	Liquidity, Risk & Size
60-Month Active Return with 1-Month Lag	-13.22	Price Momentum
Market Volatility Sensitivity	-13.13	Macro
36-Month Active Return with 1-Month Lag	-12.63	Price Momentum
Current Liabilities-to-Price	-12.43	Liquidity, Risk & Size
Natural Logarithm of Total Assets (USD)	-12.04	Liquidity, Risk & Size
Tobin q	-11.62	Liquidity, Risk & Size
Cash-to-Price	-11.16	Deep Value
Net Asset Value to Price	-11.07	Deep Value
Altman Z Score	-11.03	Liquidity, Risk & Size

Source: IHS Markit

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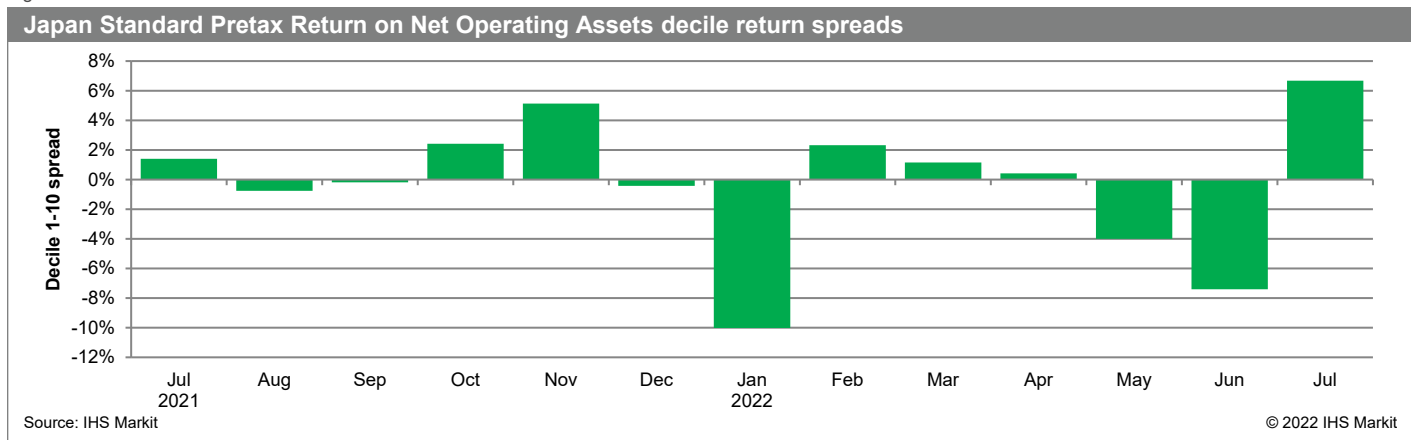
Table 10

Japan Standard Cap top decile return spread factor performance, Jul 2022		
Factor	Decile spread	Factor group
3-Month Active Return	8.66	Price Momentum
1-Month Active Return	7.61	Price Momentum
4-week Industry Relative Return	7.26	Price Momentum
2-Month Active Return	6.99	Price Momentum
Pretax Return on Net Operating Assets	6.68	Management Quality
TTM Capital Expenditures-to-Price	6.43	Deep Value
Return on Invested Capital	6.01	Management Quality
Forward Return on Equity	5.89	Management Quality
Return on Assets	5.87	Management Quality
R Sqr of 5-yr TTM EPS Trend Line	5.19	Historical Growth
Sustainable Growth Rate	4.93	Historical Growth
3-yr Compound Annual Sales Growth	4.90	Historical Growth
5-yr Relative Leading 12-Month Earnings Yield	4.83	Relative Value
Capital Acquisition Ratio	4.79	Management Quality
Operating Cash Flow to Assets	4.77	Management Quality

Source: IHS Markit

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Figure 5



Source: IHS Markit

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Table 11

Japan Standard Cap bottom decile return spread factor performance, Jul 2022		
Factor	Decile spread	Factor group
26-Week Relative Price Strength	-8.14	Price Momentum
52-Week High	-7.87	Price Momentum
6-Month Nominal Change in 36-Month Alpha	-7.47	Price Momentum
6-Month Nominal Change in 18-Month Alpha	-7.46	Price Momentum
Tobin q	-7.21	Liquidity, Risk & Size
Time Weighted Book Yield	-7.04	Deep Value
Price-to-Total Assets	-6.85	Deep Value
60-Month Active Return with 12-Month Lag	-6.83	Price Momentum
Net Asset Value to Price	-6.73	Deep Value
Leading 12 Month Book Yield	-6.69	Deep Value

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 July. As with several other coverage universes, the momentum trade was effective last month, as demonstrated by Slope of 66 Week Price Trend Line (4.13%) which registered its highest spread over the past 12 months which were characterized by cyclical performance (Figure 6). Other outperforming signals include Earnings Torpedo (4.43%) and Market Cap per Analyst (3.53%), while Lending Supply (-4.93%) and Slope of 5-yr TTM EPS Trend Line (-3.48%) were among the weakest performers.

Table 12

Emerging Markets top decile return spread factor performance, Jul 2022		
Factor	Decile spread	Factor group
Earnings Torpedo	4.43	Earnings Momentum
Slope of 66 Week Price Trend Line	4.13	Price Momentum
Fama-French Momentum	4.05	Price Momentum
Rational Decay Alpha	4.04	Price Momentum
Housing Starts Sensitivity	3.78	Macro
24-Month Active Return with 1-Month Lag	3.70	Price Momentum
Market Cap per Analyst	3.53	Liquidity, Risk & Size
Second Preceding 6-month Return	3.51	Price Momentum
30-75 Week Stock Price Ratio	3.44	Price Momentum
39-Week Return with 4-week Lag	3.43	Price Momentum
Cash Earnings Return On Equity	3.40	Management Quality
1-Year Price Momentum Indicator	3.27	Price Momentum
2-Month Active Return	3.17	Price Momentum
Financial Leverage	3.08	Liquidity, Risk & Size
1-yr Change in Sales	3.04	Historical Growth

Source: IHS Markit

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Figure 6

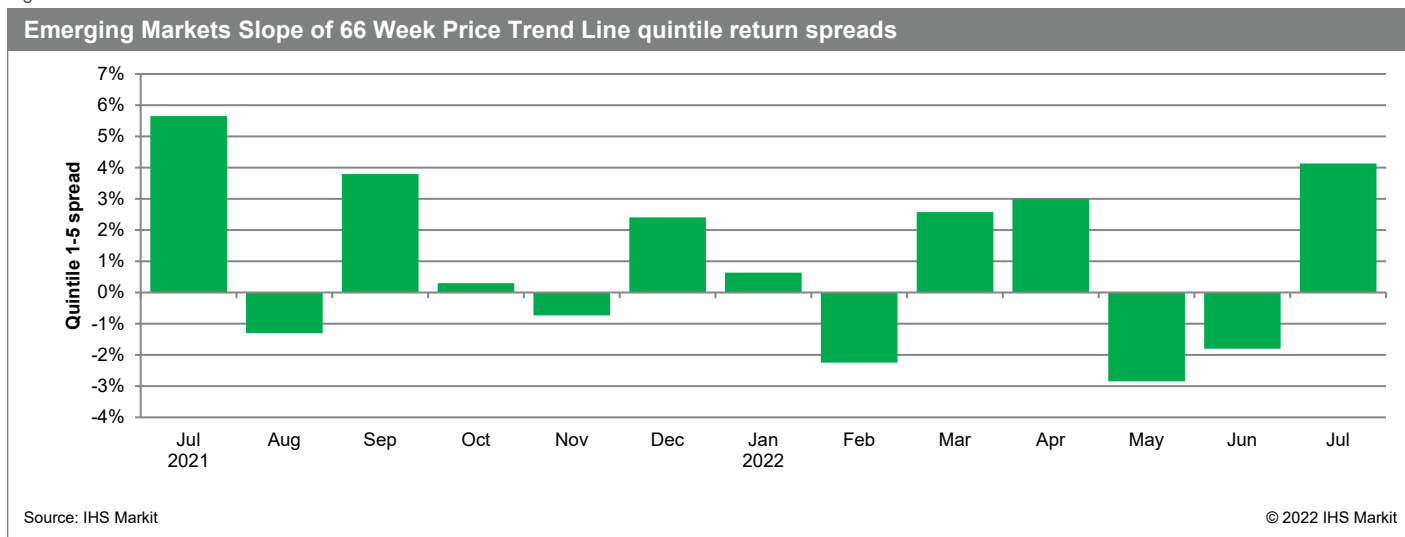


Table 13

**Emerging Markets bottom decile return spread factor performance, Jul 2022**

Factor	Decile spread	Factor group
Lending Supply	-4.93	Short Sentiment
Inventory Value Concentration	-4.01	Short Sentiment
Slope of 5-yr TTM EPS Trend Line	-3.48	Historical Growth
Natural Logarithm of Closing Price (USD)	-3.46	Liquidity, Risk & Size
Natural Logarithm of Market Capitalization	-3.42	Liquidity, Risk & Size
Leading 12 Month Book Yield	-3.36	Deep Value
Time Weighted Book Yield	-3.33	Deep Value
Industry Relative TTM Dividend Yield	-3.29	Relative Value
Average Monthly Trading Volume-to-Market Cap	-3.28	Liquidity, Risk & Size
Stock Illiquidity	-3.27	Liquidity, Risk & Size

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