

Change of seasons

August 2021

Research Signals

As the summer months come to a close in the northern hemisphere, investors geared up for the change of seasons by repositioning some factor exposures (Table 1) while pushing stocks higher in several major regional markets. US benchmarks led the way on the back of a strong earnings season; however, rising delta variant cases, in light of the upcoming flu season, raises some concerns that winds will change in the global economic recovery. Indeed, the upturn in the global manufacturing sector lost further momentum during August as supply chain disruptions drove up purchasing costs, feeding into higher selling prices and constraining output growth in several major markets including the US and eurozone, while markets in Asia, on average, slipped into contraction, according to the J.P.Morgan Global Manufacturing PMI.

- US: Top performing factors among large caps saw an uncommon pairing of Deep Value and Price Momentum measures, as demonstrated by outperformance of Forward 12-M EPS-to-Enterprise Value and Industry-adjusted 12-month Relative Price Strength, respectively
- Developed Europe: Earnings Momentum and Short Sentiment measures such as 3-M Revision in FY2 EPS Forecasts and Demand Supply Ratio, respectively, outperformed in August
- Developed Pacific: Low risk shares, captured by 60-Month Beta, were favored in Japan, while high dividend payers, gauged by Industry Relative TTM Dividend Yield, were sought after in markets outside Japan
- Emerging markets: Following two months of outperformance, Price Momentum measures including Rational Decay Alpha moved to the bottom extreme of factor performance last month

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Table 1

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

Factor	Factor Group	US Large Cap	US Small Cap	Developed Europe	Developed Pacific ex Japan	Japan Standard Cap	Emerging Markets
Book-to-Market		0.34	1.13	0.14	-1.90	-1.17	2.55
Forward 12-M EPS-to-Enterprise Value	Deep Value	4.59	-0.78	1.59	-0.37	-3.30	-0.85
TTM EBITDA-to-Enterprise Value		2.22	-0.50	1.85	0.10	-4.39	0.13
TTM Free Cash Flow-to-Enterprise Value		3.81	-0.58	1.06	-2.89	-1.30	-0.15
Industry Relative Leading 4-QTRs EPS to Price	Relative Value	-0.13	3.16	2.43	0.96	-4.30	0.66
Industry Relative TTM Dividend Yield		-1.45	-0.53	-0.44	3.44	-2.14	0.83
Fixed Assets Turnover Ratio	Management Quality	1.15	-3.68	0.83	0.93	0.08	-1.83
Inventory Turnover Ratio		1.83	0.15	1.62	-0.31	0.73	2.52
Net Operating Asset Turnover		1.14	-3.64	0.82	0.11	-0.48	-3.04
Change in Accruals to Assets	Earnings Quality	1.36	0.31	1.26	1.19	0.46	1.81
Change in TTM COGS vs. Inventory Level		1.77	0.98	-0.64	2.19	0.16	-0.21
Change in TTM Sales vs. Accounts Receivable		-2.30	-0.35	0.24	-0.45	1.69	-1.01
Working Capital Accruals		-1.67	-0.98	0.19	-1.40	-1.37	-1.03
1-yr Growth in TTM Free Cash Flow	Historical Growth	-0.14	-0.35	0.09	0.90	-3.29	-0.53
Reinvestment Rate		4.05	-1.77	2.94	-1.44	-0.68	-0.21
Average Monthly Trading Volume-to-Market Cap	Liquidity, Risk & Size	-2.17	-0.56	1.49	5.15	-1.11	-1.98
60-Month Beta		0.84	0.57	-0.46	-2.96	3.36	0.11
Asset Quality Index		-1.91	2.02	-0.42	-2.06	1.53	0.91
Operating Leverage		1.17	0.36	-0.98	-1.12	0.69	0.64
Natural Logarithm of Market Capitalization		-3.10	-0.75	3.12	5.24	-1.21	-2.49
2-Year Ahead EPS Growth	Earnings Momentum	-1.48	-7.04	-1.12	1.96	-2.67	1.57
3-M Revision in FY2 EPS Forecasts		2.37	0.89	0.73	-0.35	-2.33	-0.57
Real Earnings Surprise		4.22	1.87	-0.08	1.65	-2.17	-1.16
24-Month Value at Risk	Price Momentum	2.68	2.17	-0.80	-3.14	2.67	1.17
5-day Industry Relative Return		-1.58	-0.65	-0.88	-3.30	-0.04	0.74
Industry-adjusted 12-month Relative Price Strength		3.78	4.70	0.28	3.26	-1.68	-0.64
Rational Decay Alpha		3.28	4.57	0.26	2.94	-0.86	-3.84
Demand Supply Ratio	Short Sentiment	2.02	1.06	3.31	3.99	1.56	7.30
Implied Loan Rate		2.94	1.76	1.07	1.54	0.28	3.31

Source: IHS Markit

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United States

US Large Cap

Operating conditions in the US manufacturing sector remained strong in August, with the PMI posting at 61.1, though slightly softer than that seen in July (63.4), as steep upturns in production and new orders were offset by capacity constraints and material shortages. While investors are becoming more concerned about the rising number of delta variant infections and, to a lesser extent, rising prices, stocks notched their seventh consecutive monthly advance amid strong earnings reports and no immediate Fed taper prospects.

Top performing factors among US large caps in August (Table 2) were characterized by an interesting juxtaposition of Deep Value and Price Momentum measures. Net Asset Value to Price (5.90%) and 1-Year Price Momentum Indicator (5.73%) led the respective styles with similar spreads in August (Figure 1), while the co-movement of spreads in the prior 12 months took on a more expected pattern of negative correlation (-0.32). At the same time, underperforming factors for the month (Table 3) were dominated by price reversal measures such as 36-Month Active Return with 1-Month Lag (-4.00%) and 1-Month Active Return (-3.58%).

Table 2

US Large Cap top decile return spread factor performance, Aug 2021

Factor	Decile spread (%)	Factor group
Net Asset Value to Price	5.90	Deep Value
1-Year Price Momentum Indicator	5.73	Price Momentum
Slope of 52 Week Price Trend Line	5.29	Price Momentum
Slope of 66 Week Price Trend Line	5.07	Price Momentum
TTM Pretax Income-to-Price	4.95	Deep Value
Natural Logarithm of Total Assets (USD)	4.63	Liquidity, Risk & Size
TTM Core Earnings-to-Price	4.60	Deep Value
Forward 12-M EPS-to-Enterprise Value	4.59	Deep Value
TTM EPS after Extra Items-to-Price	4.55	Deep Value
TTM EPS before Extra Items-to-Price	4.54	Deep Value
Industry Relative TTM Oper Cash Flow-to-Total Assets	4.50	Relative Value
TTM Pro Forma Earnings-to-Price	4.38	Deep Value
Current Earnings Yield	4.35	Deep Value
3-yr MAD of TTM Net Income	4.27	Liquidity, Risk & Size
Real Earnings Surprise	4.22	Earnings Momentum

Source: IHS Markit

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Figure 1

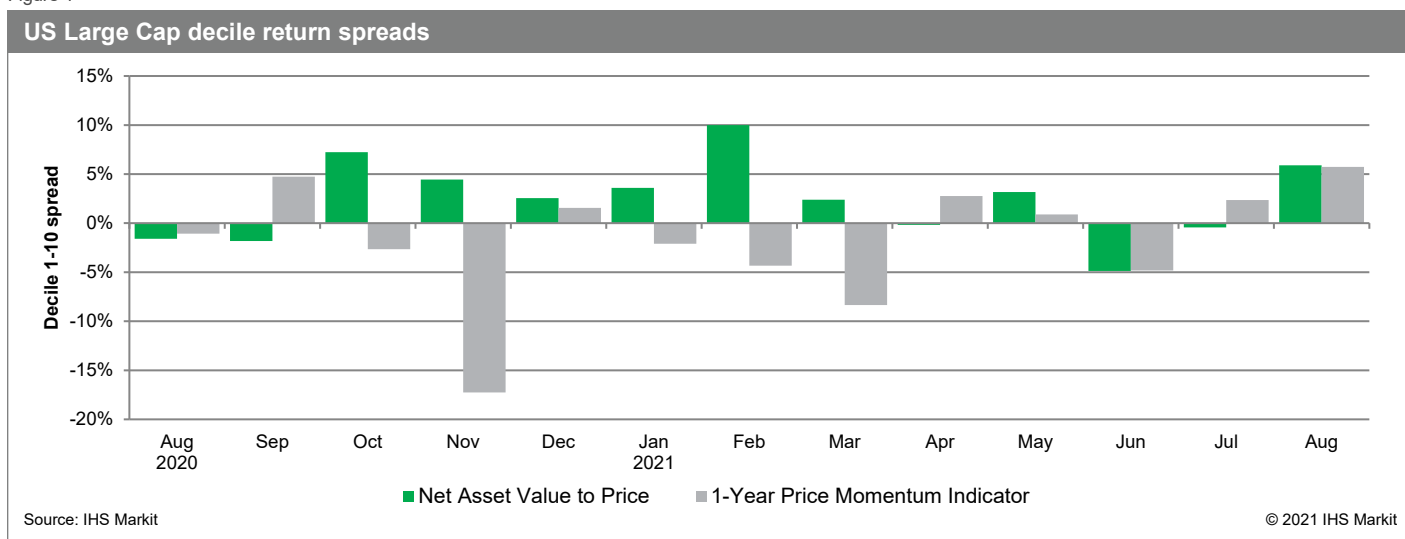


Table 3

US Large Cap bottom decile return spread factor performance, Aug 2021

Factor	Decile spread (%)	Factor group
36-Month Sharpe Ratio	-4.27	Price Momentum
Sortino Ratio	-4.22	Price Momentum
Aggregate Gamma	-4.12	Liquidity, Risk & Size
36-Month Active Return with 1-Month Lag	-4.00	Price Momentum
60-Month Active Return with 1-Month Lag	-3.70	Price Momentum
1-Month Active Return	-3.58	Price Momentum
Natural Logarithm of Closing Price	-3.46	Liquidity, Risk & Size
60-Month Alpha	-3.36	Price Momentum
Skewness of 90-Day Stock Daily Excess Returns	-3.21	Price Momentum
Natural Logarithm of Market Capitalization (USD)	-3.10	Liquidity, Risk & Size

Source: IHS Markit

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US Small Cap

Unlike large caps, small cap top (Table 4) and bottom (Table 5) factor performance represented a broad swath of themes in August. Top performers were led by TTM Gross Profit Margin (7.12%), as this Management Quality measure has returned to a more prominent role of late (Figure 2), after underperforming over the prior year. Other outperformers include 30-75 Week Stock Price Ratio (6.37%), 3-yr MAD of TTM Sales (5.86%) and 3-M Revision in FY1 EBITDA Forecasts: Dispersion Relative (4.81%), while factors which lagged for the month include Working Capital-to-Trailing 12-Month Sales (-7.04%), 2-Year Ahead EPS Growth (-7.04%) and Quick Ratio (-5.62%).

Table 4

US Small Cap top decile return spread factor performance, Aug 2021		
Factor	Decile spread (%)	Factor group
TTM Gross Profit Margin	7.12	Management Quality
30-75 Week Stock Price Ratio	6.37	Price Momentum
Cash to Enterprise Value	6.12	Deep Value
3-yr MAD of TTM Sales	5.86	Liquidity, Risk & Size
18-Month Active Return with 1-Month Lag	5.46	Price Momentum
Attention Span Ratio	5.24	Management Quality
Flow Ratio	5.05	Liquidity, Risk & Size
3-M Revision in FY1 EBITDA Forecasts: Dispersion Relative	4.81	Earnings Momentum
Cash-to-Price	4.80	Deep Value
Industry-adjusted 12-month Relative Price Strength	4.70	Price Momentum
6-Month Nominal Change in 36-Month Alpha	4.65	Price Momentum
Rational Decay Alpha	4.57	Price Momentum
Revision in Fiscal QTR 1 EPS Forecasts	4.53	Earnings Momentum
60-Day Lagged Quarterly Earnings Surprise	4.47	Earnings Momentum
12-Month Active Return with 1-month Lag	4.17	Price Momentum

Source: IHS Markit

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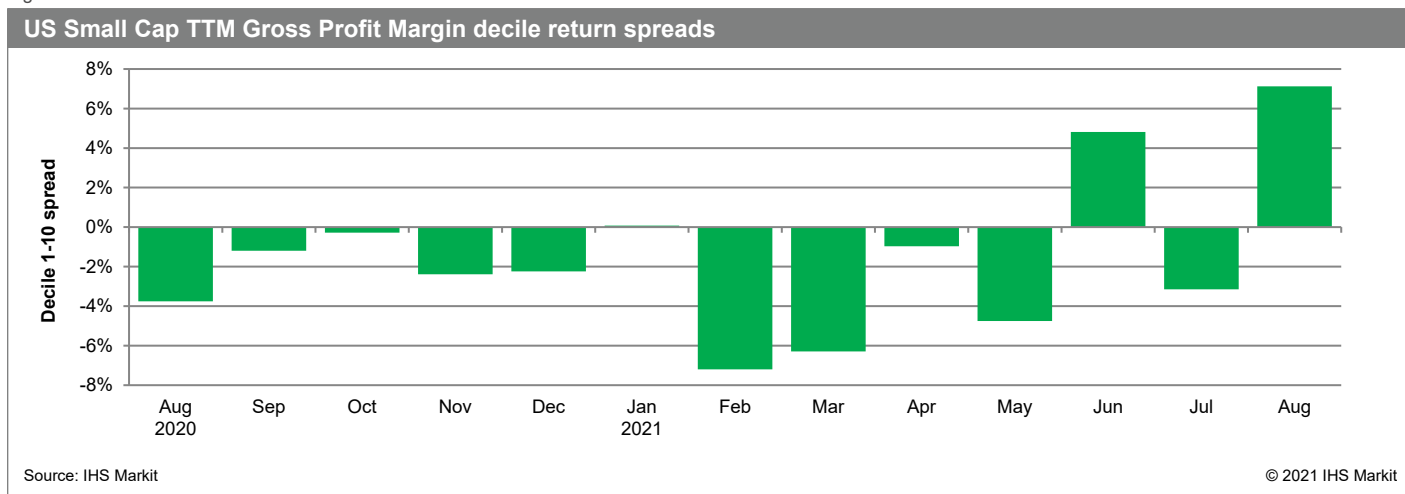
Table 5

US Small Cap bottom decile return spread factor performance, Aug 2021		
Factor	Decile spread (%)	Factor group
Working Capital-to-Trailing 12-Month Sales	-7.04	Management Quality
2-Year Ahead EPS Growth	-7.04	Earnings Momentum
Working Capital-to-Total Assets	-6.06	Management Quality
Quick Ratio	-5.62	Liquidity, Risk & Size
Assets Turnover Ratio	-5.47	Management Quality
Cash & Equivalents-to-Current Liabilities	-5.41	Liquidity, Risk & Size
Current Ratio	-5.29	Liquidity, Risk & Size
Cash-to-Sales	-5.14	Management Quality
Revenue per Employee	-5.09	Management Quality
2-Year Ahead EPS Growth Percentage Change	-5.00	Earnings Momentum

Source: IHS Markit

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Figure 2



Source: IHS Markit

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Europe

While the eurozone manufacturing sector remained solidly in expansion territory during August (PMI: 61.5), this marked a second successive month in which growth slowed (July PMI: 62.8), as input costs continued to increase substantially amid ongoing supply chain issues and strong input demand. The Netherlands once again saw the strongest improvement, though slowing to a five-month low, with softer expansions also recorded in Germany, Ireland, Austria and France. However, European shares extended their monthly winning streak to seven on stellar corporate earnings.

Earnings Momentum and Short Sentiment measures were among the top performing factors in Developed Europe in August (Table 6). FY2 EPS Forecast Dispersion (3.86%) was the top performing measure for a second consecutive month, extending its streak of positive spreads to six months, while Short Interest (3.40%) lengthened its string of outperformance to seven months (Figure 3). Factors which trailed for the month (Table 7) include YOY Chg in Acct Receivable to Current Assets (-4.66%), 2-Year Ahead EPS Growth Percentage Change (-2.70%) and 60-Month Alpha (-2.23%).

Table 6

Developed Europe top decile return spread factor performance, Aug 2021

Factor	Decile spread (%)	Factor group
FY2 EPS Forecast Dispersion	3.86	Earnings Momentum
Cash Flow Return on Invested Capital	3.54	Management Quality
3-M Revision in FY1 EPS Forecasts: Dispersion Relative	3.50	Earnings Momentum
Short Interest	3.40	Short Sentiment
Year-over-year Change in Current Ratio	3.37	Liquidity, Risk & Size
R Sqr of 5-yr TTM EPS Trend Line	3.32	Historical Growth
Demand Supply Ratio	3.31	Short Sentiment
Time Weighted Earnings Revision Dispersion	3.21	Earnings Momentum
Natural Logarithm of Market Capitalization	3.12	Liquidity, Risk & Size
1 Year Change in Gross Profit to Assets	3.01	Management Quality
Sustainable Growth Rate	2.99	Historical Growth
Reinvestment Rate	2.94	Historical Growth
Cash & Equivalents-to-Current Liabilities	2.93	Liquidity, Risk & Size
Return on Assets	2.80	Management Quality
Current Ratio	2.79	Liquidity, Risk & Size

Source: IHS Markit

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Figure 3

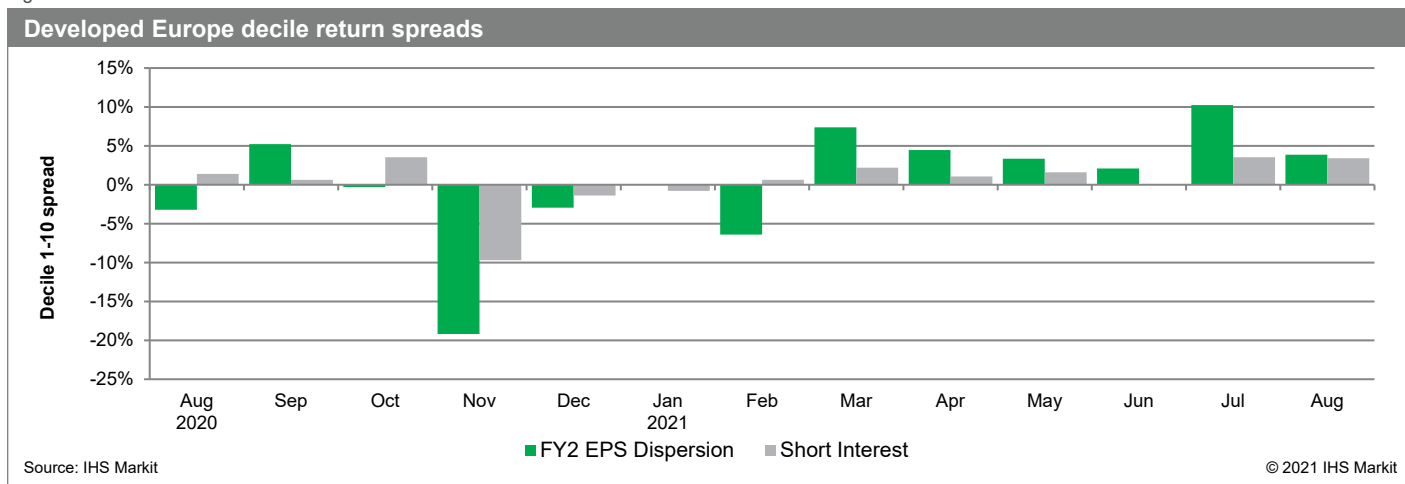


Table 7

Developed Europe bottom decile return spread factor performance, Aug 2021

Factor	Decile spread (%)	Factor group
YOY Chg in Acct Receivable to Current Assets	-4.66	Management Quality
Demand Value Concentration	-3.23	Short Sentiment
2-Year Ahead EPS Growth Percentage Change	-2.70	Earnings Momentum
Average Payable Period	-2.63	Management Quality
Natural Logarithm of Market Capitalization (USD)	-2.58	Liquidity, Risk & Size
3-yr Compound Annual Operating Profit Margin	-2.57	Historical Growth
Economic Rating	-2.44	ESG
Change in Inventory to Average Assets	-2.29	Management Quality
60-Month Alpha	-2.23	Price Momentum
5-yr Sales Growth	-2.05	Historical Growth

Source: IHS Markit

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Asia-Pacific

Rising COVID-19 cases and supply chain disruptions in the Asia-Pacific region contributed to slowing growth in the manufacturing sector in the two largest Asian economies of China and Japan in August. In fact, in China, the manufacturing PMI dipped below the cutoff between expansion and contraction, posting at 49.2 in August compared with 50.3 in July, while the Japanese manufacturing PMI dropped from 53.0 in July to 52.7 in August. Yet stocks rebounded in both countries while investors keep an eye on the economic impact of surging virus cases in the region, particularly in hard-hit Japan.

In markets outside Japan, top performing factors in August (Table 8) included Dividend Forecast measures such as Leading 12 Month Regular Dividend Yield (6.79%), a proprietary factor constructed from IHS Markit's Dividend Forecast dataset, which posted a strong rebound in performance last month (Figure 4). Other outperforming factors include Net Debt Ratio (7.68%) and 39-Week Return with 4-week Lag (5.91%), while Natural Logarithm of TTM Sales (-7.22%) and 2-Month Active Return (-4.43%) were among the weakest performers for the month (Table 9).

In Japan, investors continued to favor low risk shares, as confirmed by 60-Month Beta's (3.36%) move near the top of the factor performance leaderboard in August (Table 10). This recent trend in higher risk aversion (Figure 5) is a pronounced reversal in investors' stance versus the majority of the prior year. Factor performance at the opposite extreme (Table 11) also saw a reversal related to Deep Value measures' move from strong performers in July to underperformers in August, as demonstrated by Time Weighted EBITDA/EV's (-5.18%) month-on-month swing in spread performance of -8.0 percentage points (Figure 5).

Table 8

Developed Pacific exJapan top decile return spread factor performance, Aug 2021		
Factor	Decile spread (%)	Factor group
Net Debt Ratio	7.68	Management Quality
Net Cash to Equity	7.33	Liquidity, Risk & Size
Net Fixed Assets to Long-term Debt	6.92	Liquidity, Risk & Size
Leading 12 Month Regular Dividend Yield	6.79	Dividend Forecast
Leading 12 Month Total Dividend Yield	6.53	Dividend Forecast
39-Week Return with 4-week Lag	5.91	Price Momentum
52-Week High	5.90	Price Momentum
1-yr Change in Total Assets	5.76	Historical Growth
Stock Illiquidity	5.57	Liquidity, Risk & Size
Long-term Debt-to-Equity	5.54	Liquidity, Risk & Size
Ohlson Bankruptcy Score	5.46	Liquidity, Risk & Size
Capital Expenditure-to-Total Assets	5.42	Management Quality
Natural Logarithm of Market Capitalization	5.24	Liquidity, Risk & Size
Average Monthly Trading Volume-to-Market Cap	5.15	Liquidity, Risk & Size
Net Current Assets-to-Price	5.03	Deep Value

Source: IHS Markit

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Figure 4

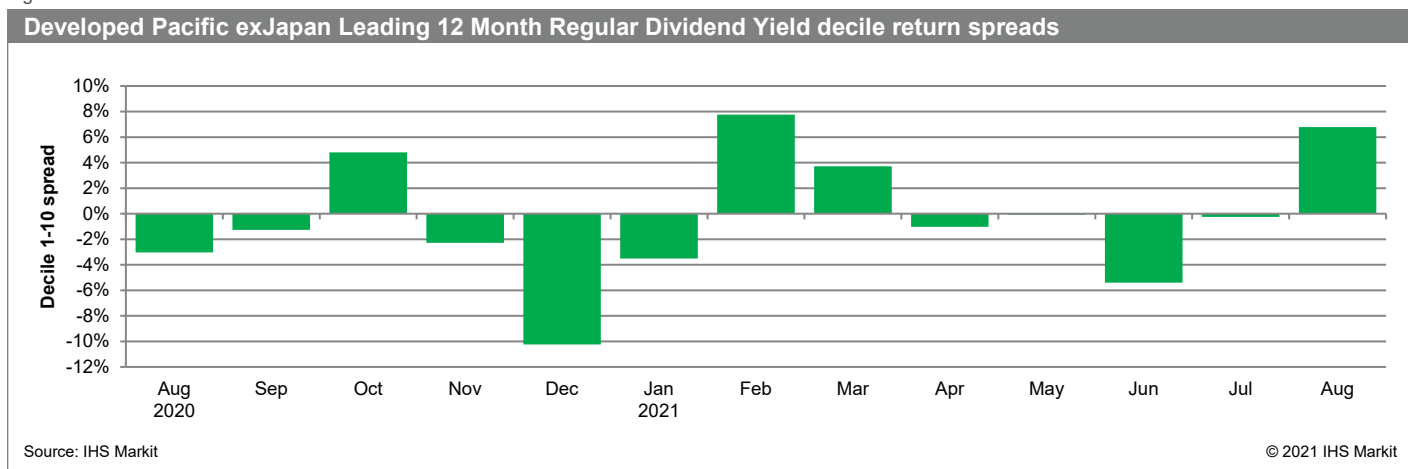


Table 9

Developed Pacific exJapan bottom decile return spread factor performance, Aug 2021		
Factor	Decile spread (%)	Factor group
Natural Logarithm of TTM Sales	-7.22	Liquidity, Risk & Size
Natural Logarithm of Total Assets	-6.86	Liquidity, Risk & Size
Market Cap per Analyst	-5.76	Liquidity, Risk & Size
2-Month Active Return	-4.43	Price Momentum
3-yr Compound Annual FCF Growth	-4.11	Historical Growth
5-yr Sales Growth	-4.05	Historical Growth
Dividend Coverage Ratio	-3.98	Liquidity, Risk & Size
1-Month Active Return	-3.74	Price Momentum
Debt to Market Cap	-3.71	Liquidity, Risk & Size
Product of Beta and Sigma	-3.53	Liquidity, Risk & Size

Source: IHS Markit

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Table 10

Japan Standard Cap top decile return spread factor performance, Aug 2021

Factor	Decile spread (%)	Factor group
Std Dev of FY1 EPS Estimates-to-Price	3.52	Earnings Momentum
TTM Capital Expenditures-to-Price	3.42	Deep Value
60-Month Beta	3.36	Liquidity, Risk & Size
Unexpected Change in Accounts Receivable	3.35	Earnings Quality
Market Cap per Analyst	3.30	Liquidity, Risk & Size
1-Year Growth in Dividend Payout	3.06	Dividend Forecast
Std Dev of FY2 EPS Estimates-to-Price	3.05	Earnings Momentum
Net Fixed Assets to Long-term Debt	3.00	Liquidity, Risk & Size
Price Above Last 260-day Lowest Trading Price	2.72	Price Momentum
Change in TTM Sales vs. EPS	2.67	Earnings Quality
24-Month Value at Risk	2.67	Price Momentum
Change in TTM EPS vs. Oper Cash Flows	2.64	Earnings Quality
3-yr Compound Annual Operating Profit Margin	2.58	Historical Growth
TTM Gross Profit Margin	2.38	Management Quality
Trading Turnover Ratio	2.37	Liquidity, Risk & Size

Source: IHS Markit

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Figure 5

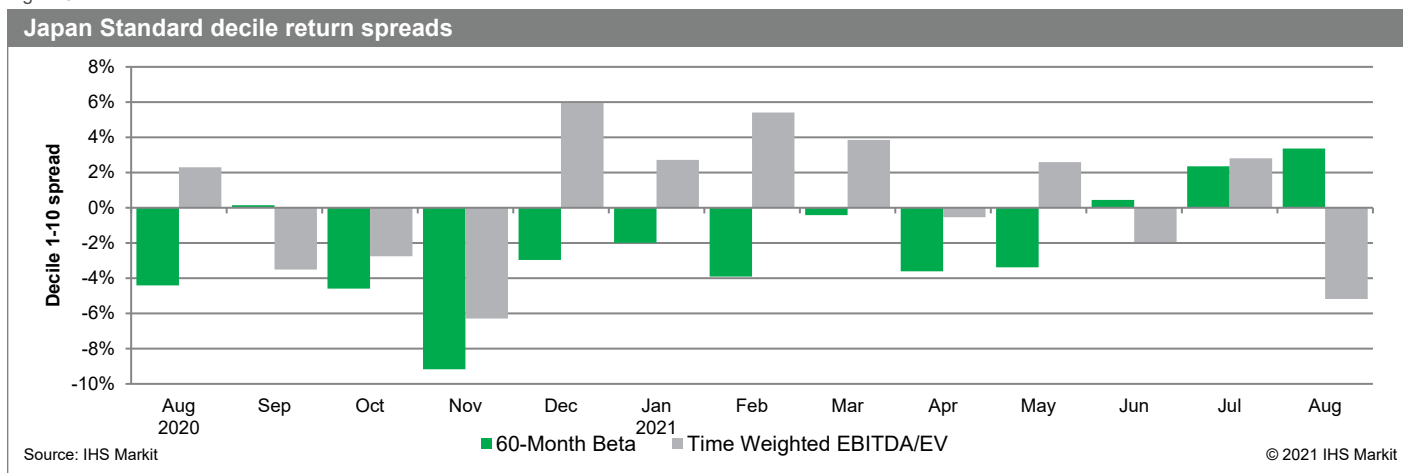


Table 11

Japan Standard Cap bottom decile return spread factor performance, Aug 2021

Factor	Decile spread (%)	Factor group
Oil Prices Sensitivity	-5.97	Macro
Time Weighted Cash Yield	-5.83	Deep Value
Current Liabilities-to-Price	-5.56	Liquidity, Risk & Size
TTM Cash Flow-to-Price	-5.43	Deep Value
Time Weighted EBITDA/ EV	-5.18	Deep Value
Industry Relative TTM EBITDA-to-Price	-5.06	Relative Value
Leading 12 Month EBITDA/ EV	-4.97	Deep Value
Cash-to-Price	-4.93	Deep Value
TTM EBITDA-to-Price	-4.73	Deep Value
Industry Relative TTM Sales-to-Price	-4.42	Relative Value

Source: IHS Markit

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Emerging Markets

We round out the report with a review of top (Table 12) and bottom (Table 13) performing factors in emerging markets in August. Investors moved out on the risk curve at the expense of Price Momentum measures which lost steam last month. Regression Error of 60-Month CAPM (5.24%) and 18-Month Active Return with 1-Month Lag (-5.35%) are two such measures that captured these respective themes, as characterized by a 4.7 percentage point improvement in spread performance for the former compared with a drop of -8.8 for the latter (Figure 6).

Table 12

Emerging Markets top quintile return spread factor performance, Aug 2021		
Factor	Decile spread (%)	Factor group
Trading Turnover Ratio	5.52	Liquidity, Risk & Size
Net Debt Ratio	5.48	Management Quality
Regression Error of 60-Month CAPM	5.24	Liquidity, Risk & Size
Average Trading Volume in Preceding 6-month	5.21	Price Momentum
60-Month Alpha	5.19	Price Momentum
Natural Logarithm of Total Assets (USD)	4.90	Liquidity, Risk & Size
Cyclically Adjusted Earnings-to-Price	4.81	Deep Value
Net Cash to Equity	4.78	Liquidity, Risk & Size
60-Day Residual Risk	4.78	Liquidity, Risk & Size
24-Month Residual Return Variance	4.70	Price Momentum
Stock Return Volatility	4.66	Liquidity, Risk & Size
5-yr Relative Book-to-Market	4.22	Relative Value
Net Current Assets-to-Price	4.14	Deep Value
Working Capital-to-Total Assets	4.13	Management Quality
CV of Prior 90-Day Closing Prices	3.96	Price Momentum

Source: IHS Markit

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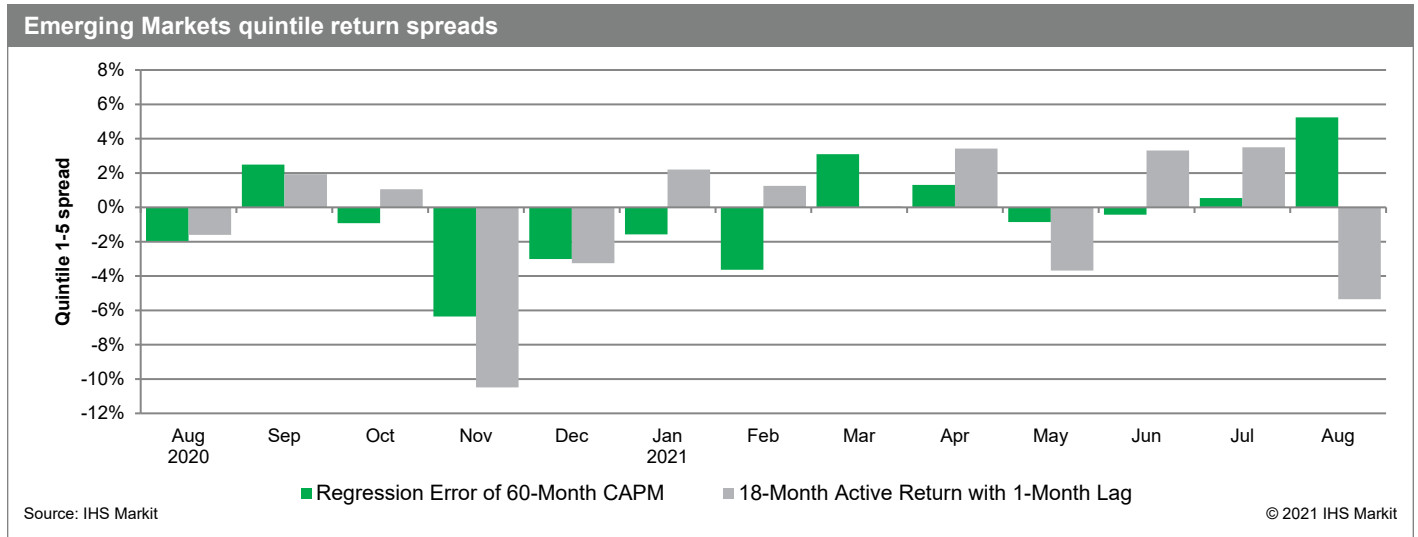
Table 13

Emerging Markets bottom quintile return spread factor performance, Aug 2021		
Factor	Decile spread (%)	Factor group
18-Month Active Return with 1-Month Lag	-5.35	Price Momentum
24-Month Active Return with 1-Month Lag	-5.28	Price Momentum
1-yr Change in Sales	-3.96	Historical Growth
1-yr Growth in TTM Cash Flow	-3.91	Historical Growth
Yearly Change in ROE - Percentage Method	-3.88	Management Quality
Rational Decay Alpha	-3.84	Price Momentum
1 Year Change in Gross Profit to Assets	-3.76	Management Quality
Yearly Change in ROE - Arithmetic Difference	-3.67	Management Quality
3-yr Change in Price-adj TTM EPS	-3.65	Historical Growth
12-Month Active Return with 1-month Lag	-3.65	Price Momentum

Source: IHS Markit

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Figure 6



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