

# Momentum shares avoid some pain despite stocks' struggles

August 2022

## Research Signals

Central banks remained center stage, as Federal Reserve Chair Jerome Powell, in his speech at a central bank symposium in Jackson Hole, warned of 'some pain' to households and businesses in their fight against inflation. While stocks reacted negatively, and as global economic activity contracted for the first time since June 2020, according to the J.P.Morgan Global Composite PMI™, momentum shares extended gains into August (Table 1).

- US: Earnings Momentum measures gained traction last month, as confirmed by factors such as 3-M Revision in FY2 EPS Forecasts and 2-Year Ahead EPS Growth
- Developed Europe: Price Momentum was a highly favored theme again in August, as captured by Industry-adjusted 12-month Relative Price Strength
- Developed Pacific: High momentum and high risk shares outperformed across the region, as gauged respectively by Rational Decay Alpha and 60-Month Beta
- Emerging markets: Average Monthly Trading Volume-to-Market Cap and 3-M Revision in FY2 EPS Forecasts were positively rewarded last month

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Table 1

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

Factor	Factor Group	US Large	US	Developed	Developed	Japan	Emerging
		Cap	Small Cap	Europe	Pacific ex Japan	Standard Cap	Markets
Book-to-Market		-0.56	-4.45	4.49	-3.19	-0.93	-0.38
Forward 12-M EPS-to-Enterprise Value	Deep Value	-0.96	-3.32	-0.67	-2.87	2.11	-1.77
TTM EBITDA-to-Enterprise Value		-3.05	-7.16	-2.11	-3.00	-0.31	-1.22
TTM Free Cash Flow-to-Enterprise Value		0.35	-6.76	-1.12	-2.54	-1.87	-0.47
Industry Relative Leading 4-QTRs EPS to Price	Relative Value	-1.71	-6.70	0.18	-3.50	0.37	0.44
Industry Relative TTM Dividend Yield		0.09	-2.56	-2.00	2.16	-0.72	-1.59
Fixed Assets Turnover Ratio	Management Quality	1.08	-4.61	-1.12	-1.79	-0.84	0.61
Inventory Turnover Ratio		3.95	-2.92	-1.21	1.90	-0.70	-1.71
Net Operating Asset Turnover		0.93	-2.75	-0.65	-0.47	-0.18	0.37
Change in Accruals to Assets	Earnings Quality	0.15	1.99	-0.90	-1.89	1.85	0.26
Change in TTM COGS vs. Inventory Level		1.34	-5.17	-0.50	-0.98	-1.74	-0.59
Change in TTM Sales vs. Accounts Receivable		1.01	-2.76	0.07	-1.97	0.80	-0.17
Working Capital Accruals		-2.41	2.94	0.26	1.64	-0.50	0.02
1-yr Growth in TTM Free Cash Flow	Historical Growth	1.55	-3.29	-2.16	-0.44	0.13	-0.69
Reinvestment Rate		-5.75	-9.70	-4.63	-2.98	0.29	-1.35
Average Monthly Trading Volume-to-Market Cap	Liquidity, Risk & Size	3.79	7.29	0.77	1.04	2.09	3.30
60-Month Beta		-2.71	-2.09	4.15	-6.49	-2.95	-0.08
Asset Quality Index		-2.76	-1.01	0.45	0.88	-1.16	0.96
Operating Leverage		-0.53	-0.89	-2.05	1.14	-1.06	-0.10
Natural Logarithm of Market Capitalization		0.70	4.76	2.18	-0.26	1.21	2.08
2-Year Ahead EPS Growth	Earnings Momentum	3.54	3.37	0.72	-1.47	1.44	0.90
3-M Revision in FY2 EPS Forecasts		4.36	3.25	6.11	2.30	2.37	1.60
Real Earnings Surprise		-2.68	-5.66	1.06	1.90	2.54	0.14
24-Month Value at Risk	Price Momentum	-1.40	-10.38	3.36	0.89	-0.66	-1.74
5-day Industry Relative Return		-1.62	3.71	1.29	-5.92	-1.49	-0.72
Industry-adjusted 12-month Relative Price Strength		3.05	-0.67	6.68	1.32	1.95	-0.84
Rational Decay Alpha		3.65	-2.14	3.14	4.99	1.38	-0.94
Demand Supply Ratio		0.16	-2.91	2.16	-1.43	-0.62	-7.19
Implied Loan Rate	Short Sentiment	-1.02	-1.34	-2.59	-1.43	0.37	-4.04

Source: IHS Markit

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## United States

### US Large Cap

US manufacturing sector operating conditions continued to weaken in August, with the headline PMI figure dropping to 51.5, from 52.2 in July, its lowest reading since July 2020, as new orders fell amid weak client demand linked to the impact of inflation and economic uncertainty on customer spending. Investors reacted to similar concerns, in addition to hawkish comments from Federal Reserve Chair Powell's Jackson Hole speech, with stocks finishing the month in the red.

Momentum measures took on a prominent role among the top performing factors for US large caps in August (Table 2). 1-Year Price Momentum Indicator (6.59%) took the lead, with a 9.4 percentage point month-on-month increase in spread driving its second highest performance over the past year (Figure 1). Other outperforming momentum signals include 24-Month Active Return with 1-Month Lag (4.75%) and 1-Year Ahead EPS Growth (4.51%), while the weakest performing factors for the month (Table 3) include 2-Year Trough Operating Margin (-6.01%) and Sustainable Growth Rate (-5.95%).

Table 2

US Large Cap top decile return spread factor performance, August 2022		
Factor	Decile spread	Factor group
1-Year Price Momentum Indicator	6.59	Price Momentum
Operating Liability Leverage	5.10	Management Quality
1 Year Change in Gross Profit to Assets	5.03	Management Quality
Altman Z Score	4.98	Liquidity, Risk & Size
Oil Prices Sensitivity	4.90	Macro
Attention Span Ratio	4.89	Management Quality
US Dollar Value Sensitivity	4.87	Macro
24-Month Active Return with 1-Month Lag	4.75	Price Momentum
1-yr Change in Asset Turnover Ratio	4.56	Historical Growth
1-Year Ahead EPS Growth	4.51	Earnings Momentum
Net # of Revisions for Fiscal Year 2	4.43	Earnings Momentum
Accounting Accruals	4.36	Earnings Quality
3-M Revision in FY2 EPS Forecasts	4.36	Earnings Momentum
Slope of 66 Week Price Trend Line	4.36	Price Momentum
Inverse of PEG Ratio	4.26	Earnings Momentum

Source: IHS Markit

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Figure 1

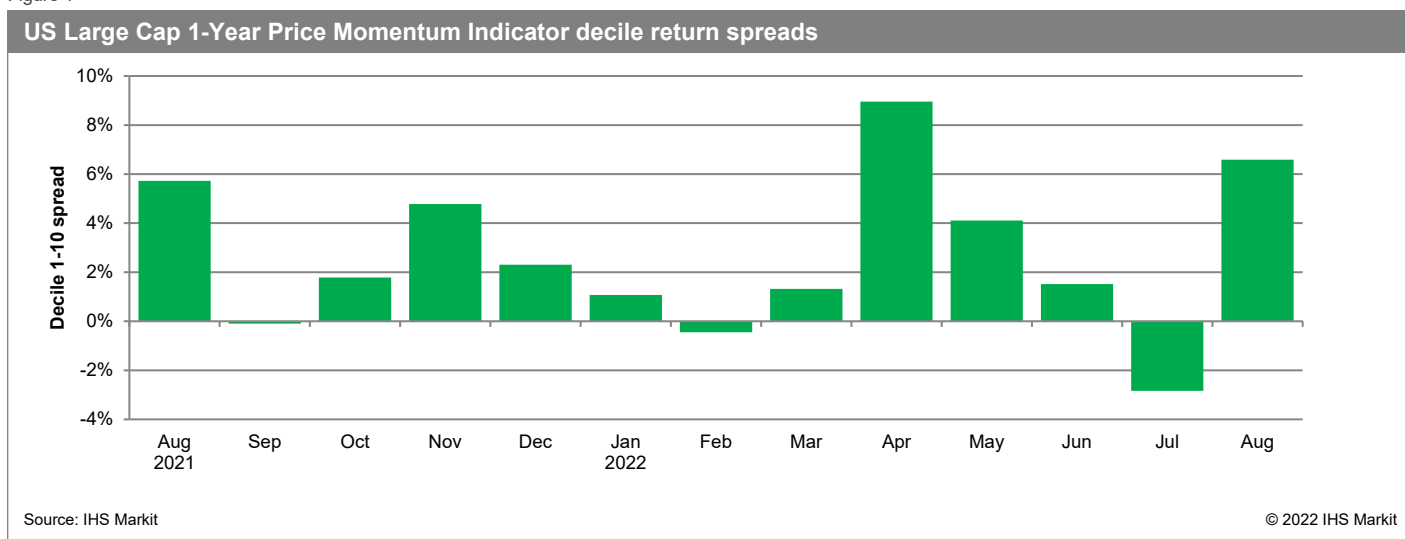


Table 3

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

Factor	Decile spread	Factor group
Distress Measure	-6.52	Liquidity, Risk & Size
2-Year Trough Operating Margin	-6.01	Management Quality
Sustainable Growth Rate	-5.95	Historical Growth
1-Year Trough Operating Margin	-5.86	Management Quality
24-Month Residual Return Variance	-5.86	Price Momentum
Reinvestment Rate	-5.75	Historical Growth
3-Year Trough Operating Margin	-5.65	Management Quality
5-yr Relative TTM Dividend Yield	-5.44	Relative Value
Return on Equity	-5.42	Management Quality
Price Above Last 260-day Lowest Trading Price	-5.36	Price Momentum

Source: IHS Markit © 2022 IHS Markit

## US Small Cap

Top performing factors for small caps in August (Table 4) included a handful of Earnings Momentum measures including 1-Year Ahead EPS Growth (6.61%) which has regained traction after three months of subpar performance (Figure 2). However, quality and value indicators lost steam last month, sending factors such as Net Income per Employee (-12.01%), 5-yr Relative TTM Cash Flow-to-Price (-11.77%) and Cyclically Adjusted Earnings-to-Price (-10.66%) to the laggard board (Table 5).

Table 4

US Small Cap top decile return spread factor performance, August 2022		
Factor	Decile spread	Factor group
Ohlson Bankruptcy Score	12.55	Liquidity, Risk & Size
60-Month Active Return with 1-Month Lag	9.78	Price Momentum
Operating Liability Leverage	8.62	Management Quality
Attention Span Ratio	8.52	Management Quality
36-Month Active Return with 1-Month Lag	7.84	Price Momentum
Product of TTM FCF Yield and Forward ROE	7.56	Earnings Momentum
Average Monthly Trading Volume-to-Market Cap	7.29	Liquidity, Risk & Size
Implied Volatility	7.27	Liquidity, Risk & Size
1-yr Change in Total Assets	7.07	Historical Growth
60-Month Active Return with 12-Month Lag	6.88	Price Momentum
1-Year Ahead EPS Growth	6.61	Earnings Momentum
1-Quarter Ahead EPS Growth	5.77	Earnings Momentum
14 Day Relative Strength Index	5.53	Price Momentum
Street Revision Confidence	5.49	Earnings Momentum
Advertising Intensity	5.46	Management Quality

Source: IHS Markit

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Figure 2

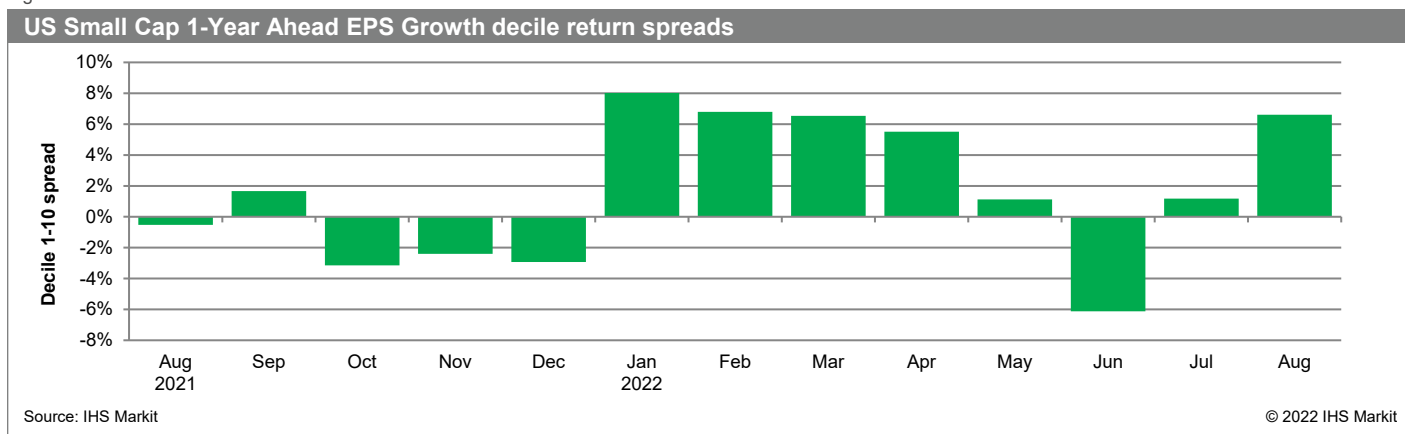


Table 5

US Small Cap bottom decile return spread factor performance, August 2022		
Factor	Decile spread	Factor group
Net Income per Employee	-12.01	Management Quality
5-yr Relative TTM Cash Flow-to-Price	-11.77	Relative Value
Capital Acquisition Ratio	-11.23	Management Quality
Cyclically Adjusted Earnings-to-Price	-10.66	Deep Value
5-yr Relative TTM Earnings-to-Price	-10.59	Relative Value
Return on Equity	-10.50	Management Quality
Cyclically and Inflation Adjusted Earnings-to-Price	-10.40	Deep Value
24-Month Value at Risk	-10.38	Price Momentum
Return on Assets	-10.14	Management Quality
TTM Pro Forma Earnings-to-Price	-10.10	Deep Value

Source: IHS Markit

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## Europe

The eurozone manufacturing sector continued to contract in August, with the PMI slipping to 49.6, from 49.8 in July, on weak output and new orders. Only Netherlands, Ireland and France saw PMIs above 50.0, while sharper declines were seen in Germany, Austria, Greece and Italy. Stocks gave up most of the prior month's gains amid ongoing energy and inflation concerns.

While Price Momentum measures took on a more prominent role among the top performing factors in Developed Europe in August (Table 6), the top performing factor was US Dollar Value Sensitivity (9.49%), which returned to favor (Figure 3) as the euro fell below parity with the US dollar for the first time in nearly 20 years. Relatedly, North America Sales Exposure (-11.41%) was the weakest performing factor in August (Table 7), alongside other measures such as Lending Supply (-6.01%), Std Dev of FY2 EPS Estimates-to-Price (-5.95%) and Sustainable Growth Rate (-5.41%).

Table 6

### Developed Europe top decile return spread factor performance, August 2022

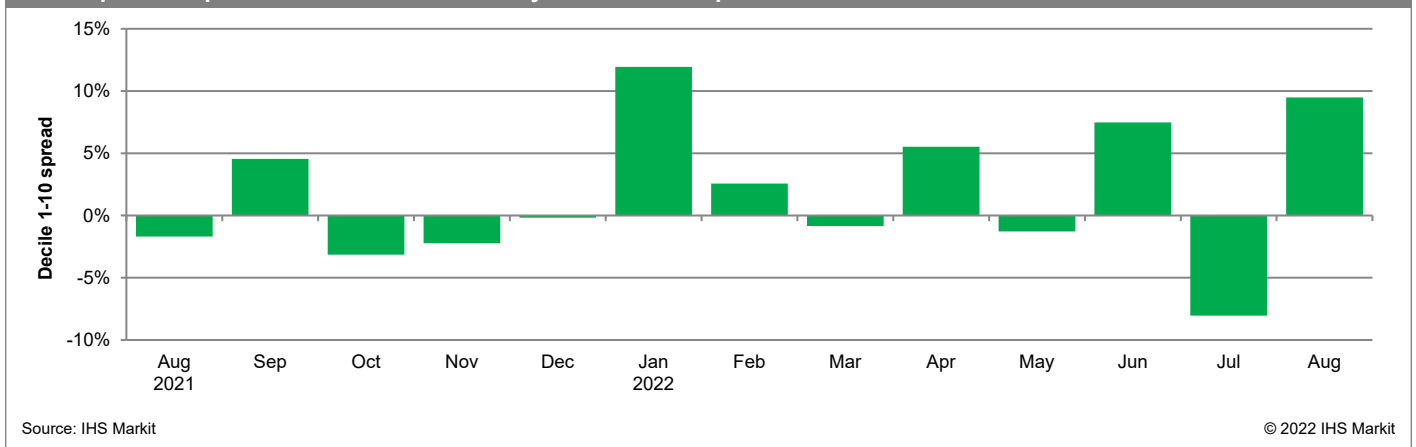
Factor	Decile spread	Factor group
US Dollar Value Sensitivity	9.49	Macro
6-Month Active Return with 1-Month Lag	8.93	Price Momentum
12-Month Active Return with 1-month Lag	8.33	Price Momentum
1-Year Price Momentum Indicator	8.30	Price Momentum
30-75 Week Stock Price Ratio	7.61	Price Momentum
9-Month Active Return with 1-Month Lag	7.53	Price Momentum
Days to Cover	7.40	Short Sentiment
Slope of 52 Week Price Trend Line	7.22	Price Momentum
15/36 Week Stock Price Ratio	7.18	Price Momentum
Short Interest	7.12	Short Sentiment
60-Month Active Return with 12-Month Lag	7.07	Price Momentum
50-200 Day Stock Price Ratio	7.00	Price Momentum
Fama-French Momentum	6.95	Price Momentum
18-Month Active Return with 1-Month Lag	6.83	Price Momentum
Net Asset Value to Price	6.83	Deep Value

Source: IHS Markit

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Figure 3

### Developed Europe US Dollar Value Sensitivity decile return spreads



Source: IHS Markit

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Table 7

Developed Europe bottom decile return spread factor performance, August 2022		
Factor	Decile spread	Factor group
North America Sales Exposure	-11.41	Macro
Short Concentration Ratio	-7.22	Short Sentiment
Demand Value Concentration	-7.08	Short Sentiment
Lending Supply	-6.01	Short Sentiment
Std Dev of FY2 EPS Estimates-to-Price	-5.95	Earnings Momentum
Inventory Value Concentration	-5.78	Short Sentiment
EBITDA-to-Debt	-5.75	Liquidity, Risk & Size
Interest Coverage	-5.54	Liquidity, Risk & Size
Sustainable Growth Rate	-5.41	Historical Growth
Liquidity Coefficient	-5.28	Liquidity, Risk & Size

Source: IHS Markit

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## Asia-Pacific

Manufacturing operating conditions continued to weaken in the two largest Asian economies of China and Japan in August. In China, the manufacturing PMI slipped to 49.5, from 50.4 in July, as power cuts and temporary factory closures depressed output and sales. In Japan, the headline PMI dipped further to 51.5 in August, from 52.1 in July, as both output and new orders fell for the second consecutive month. Stocks gave up mid-month gains as concerns for global economic growth abound.

Earnings Momentum metrics joined Price Momentum as the dominant theme on the list of outperforming factors in developed Pacific markets in August (Table 8), which included measures such 12-Month Active Return with 1-month Lag (8.01%) and Time Weighted Earnings Revision Dispersion (6.48%). High risk shares were also favored by investors, as confirmed by measures such as 60-Month Beta (-6.49%) which represented this theme's second consecutive month on the list of weakest performing factors (Table 9).

Similar trends were found on the list of top (Table 10) and bottom (Table 11) performing factors in Japan in August, with the respective lists capped by 24-Month Active Return with 1-Month Lag (5.64%) and 1-Month Realized Stock Return Volatility (-4.10%). Outside of these themes, we also highlight strong performance associated with TTM Total Sales Growth (5.29%), whose upward trend in performance over the last two months (Figure 5) supported its move to the second highest position on the factor leaderboard.

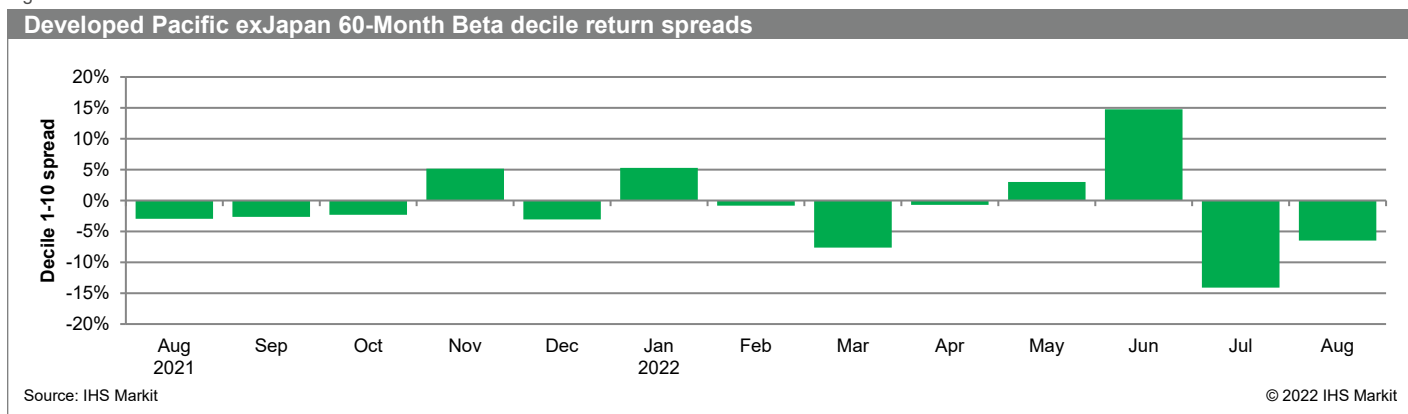
Table 8

Developed Pacific exJapan top decile return spread factor performance, August 2022		
Factor	Decile spread	Factor group
12-Month Active Return with 1-month Lag	8.01	Price Momentum
30-75 Week Stock Price Ratio	7.54	Price Momentum
Fama-French Momentum	7.54	Price Momentum
6-Month Nominal Change in 36-Month Alpha	6.83	Price Momentum
15/36 Week Stock Price Ratio	6.52	Price Momentum
Time Weighted Earnings Revision Dispersion	6.48	Earnings Momentum
18-Month Active Return with 1-Month Lag	6.45	Price Momentum
24-Month Active Return with 1-Month Lag	6.20	Price Momentum
26-Week Relative Price Strength	5.68	Price Momentum
Time Weighted Earnings Revision	5.64	Earnings Momentum
50-200 Day Stock Price Ratio	5.62	Price Momentum
Rational Decay Alpha	4.99	Price Momentum
Averaged Last 6-M EPS Revisions for FY1	4.64	Earnings Momentum
39-Week Return with 4-week Lag	4.22	Price Momentum
Credit Risk Premium Sensitivity	4.14	Macro

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, August 2022		
Factor	Decile spread	Factor group
EMEA Sales Exposure	-7.31	Macro
TTM Gross Profit Margin	-6.72	Management Quality
60-Month Beta	-6.49	Liquidity, Risk & Size
Product of Beta and Sigma	-6.28	Liquidity, Risk & Size
5-day Industry Relative Return	-5.92	Price Momentum
TTM Gross Profit to Assets	-5.27	Management Quality
3-yr Change in Assets-adj TTM Oper Cash Flow	-5.09	Historical Growth
Price Above Last 260-day Lowest Trading Price	-4.99	Price Momentum
3-yr Compound Annual Sales Growth	-4.91	Historical Growth
4-week Industry Relative Return	-4.89	Price Momentum

Source: IHS Markit

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Table 10

Japan Standard Cap top decile return spread factor performance, August 2022		
Factor	Decile spread	Factor group
24-Month Active Return with 1-Month Lag	5.64	Price Momentum
Yearly TTM Total Sales Growth Rate	5.29	Historical Growth
Lagged Inverse of PEG Ratio	4.92	Earnings Momentum
1-yr Change in Asset Turnover Ratio	4.23	Historical Growth
North America Sales Exposure	4.10	Macro
18-Month Active Return with 1-Month Lag	3.95	Price Momentum
6-Month Nominal Change in 36-Month Alpha	3.89	Price Momentum
Street Revision Confidence	3.67	Earnings Momentum
Street Consensus Rating	3.65	Earnings Momentum
26-Week Relative Price Strength	3.57	Price Momentum
EMEA Sales Exposure	3.51	Macro
Change in QTR SG&A Expenses vs. Sales	3.44	Earnings Quality
3-M Revision in FY1 EBITDA Forecasts: Dispersion Relative	3.32	Earnings Momentum
1-yr Change in Sales	3.32	Historical Growth
Averaged Last 6-M EPS Revisions for FY2	3.19	Earnings Momentum

Source: IHS Markit

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Figure 5

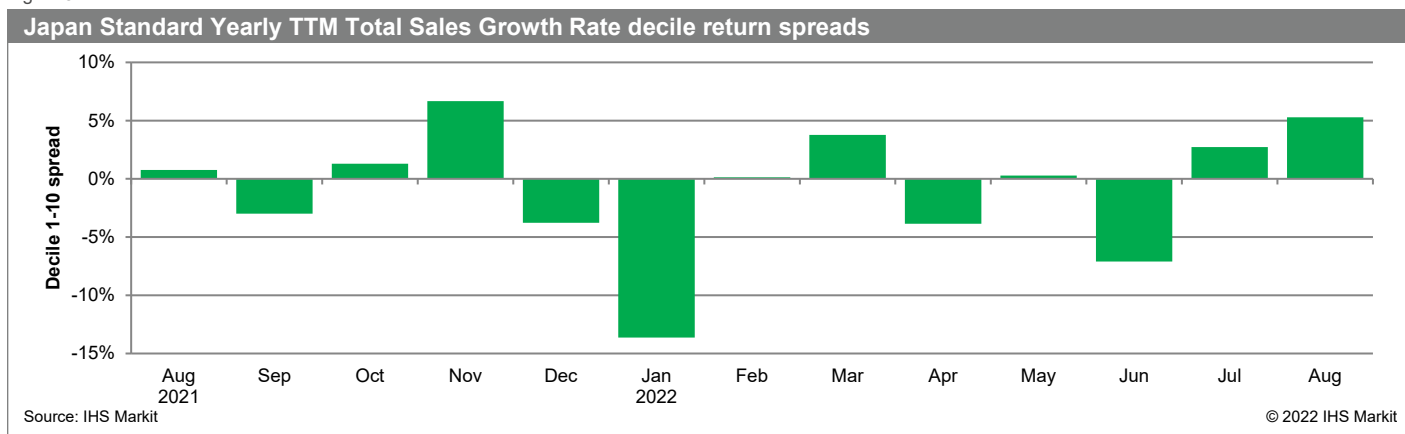


Table 11

Japan Standard Cap bottom decile return spread factor performance, August 2022		
Factor	Decile spread	Factor group
1-Month Realized Stock Return Volatility	-4.10	Liquidity, Risk & Size
Average Trading Volume in Preceding 6-month	-4.03	Price Momentum
Trading Turnover Ratio	-3.75	Liquidity, Risk & Size
1-Month Stock Return Interquartile Range	-3.62	Liquidity, Risk & Size
5-yr Relative TTM Dividend Yield	-3.51	Relative Value
Stock Return Volatility	-3.48	Liquidity, Risk & Size
Housing Starts Sensitivity	-3.34	Macro
Market Cap per Analyst	-3.30	Liquidity, Risk & Size
Regression Error of 60-Month CAPM	-3.25	Liquidity, Risk & Size
60-Day Residual Risk	-3.16	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 August. Earnings Momentum measures were top performers for the month, led by Earnings Torpedo (4.22%), which identifies companies that are at risk of a precipitous drop in stock price if expectations for future growth are not met. In fact, this factor has been a strong signal over the past year (Figure 6), particularly over the last two months. Other outperforming factors include Average Monthly Trading Volume-to-Market Cap (3.30%), while Lending Supply (-3.17%) and Price Above Last 260-day Lowest Trading Price (-3.01%) trailed.

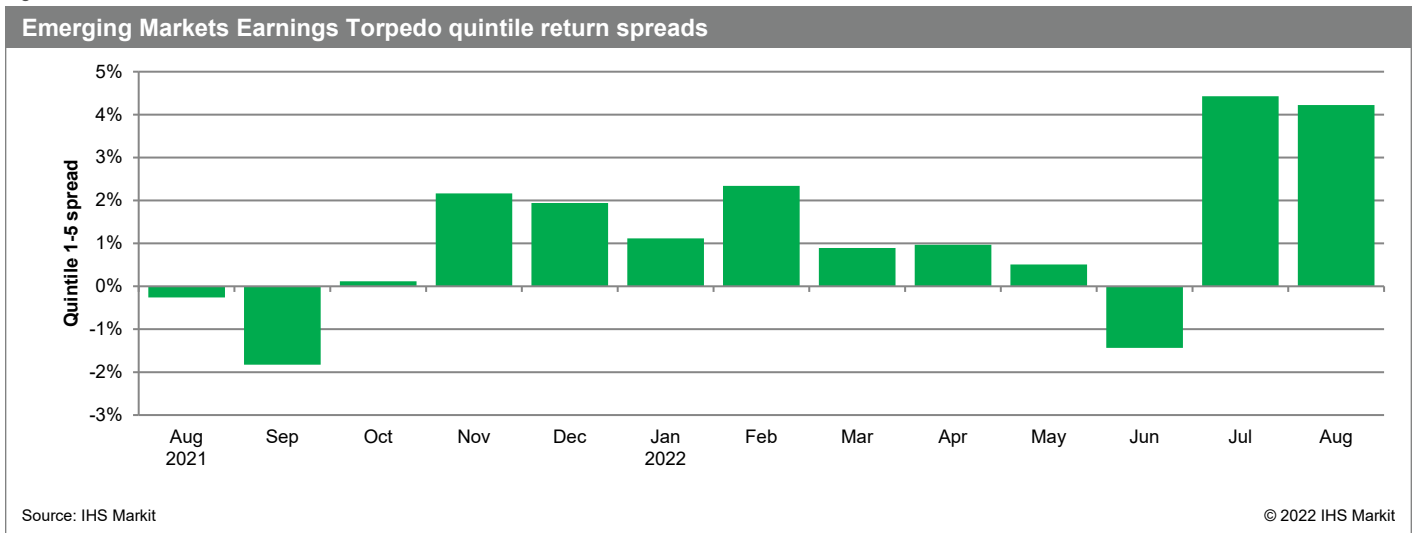
Table 12

Emerging Markets top decile return spread factor performance, August 2022		
Factor	Decile spread	Factor group
Earnings Torpedo	4.22	Earnings Momentum
Natural Logarithm of Market Capitalization (USD)	3.78	Liquidity, Risk & Size
Average Monthly Trading Volume-to-Market Cap	3.30	Liquidity, Risk & Size
2-Year Projected EPS Growth	2.89	Earnings Momentum
Averaged Last 6-M EPS Revisions for FY2	2.65	Earnings Momentum
Ohlson Bankruptcy Score	2.59	Liquidity, Risk & Size
1-yr Change in Sales	2.16	Historical Growth
3-M Revision in FY1 EPS Forecasts: Dispersion Relative	1.89	Earnings Momentum
US Dollar Value Sensitivity	1.86	Macro
1-Year Price Momentum Indicator	1.84	Price Momentum
Street Revision Magnitude	1.78	Earnings Momentum
Dividends- to-Cash Flow	1.76	Management Quality
3-M Revision in FY2 EPS Forecasts: Dispersion Relative	1.75	Earnings Momentum
Slope of 52 Week Price Trend Line	1.73	Price Momentum
39-Week Return with 4-week Lag	1.71	Price Momentum

Source: IHS Markit

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Figure 6



Source: IHS Markit

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Table 13

<b>Emerging Markets bottom decile return spread factor performance, August 2022</b>		
<b>Factor</b>	<b>Decile spread</b>	<b>Factor group</b>
Inventory Value Concentration	-4.56	Short Sentiment
Trading Turnover Ratio	-4.50	Liquidity, Risk & Size
Average Trading Volume in Preceding 6-month	-4.29	Price Momentum
Operating Cash Flow Ratio	-3.24	Liquidity, Risk & Size
Lending Supply	-3.17	Short Sentiment
Price Above Last 260-day Lowest Trading Price	-3.01	Price Momentum
Distress Measure	-2.85	Liquidity, Risk & Size
Regression Error of 60-Month CAPM	-2.82	Liquidity, Risk & Size
20-Day Volume Volatility to Price Volatility	-2.82	Liquidity, Risk & Size
Operating Cash Flow to Assets	-2.63	Management Quality

Source: IHS Markit

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