

Equity markets give way to inflating pressures

September 2021

Research Signals

After rising steadily for most of the year while Asia Pacific markets remained unsettled, US and developed Europe equity markets finally succumbed to concerns over economic growth from factors such as the spread of the delta variant and rising inflation. Moreover, the global manufacturing upturn has remained constrained by supply chain disruptions and input shortages, according to the J.P.Morgan Global Manufacturing PMI. Yet, high risk shares outperformed in many developed markets, alongside undervalued stocks (Table 1).

- US: Valuation measures continued to be favored, as captured by Forward 12-M EPS-to-Enterprise Value, while Price Momentum metrics such as Industry-adjusted 12-month Relative Price Strength, moved out of favor
- Developed Europe: Undervalued, high risk shares outperformed as gauged respectively by Book-to-Market and 60-Month Beta
- Developed Pacific: Fixed Assets Turnover Ratio was a highly rewarded factor in Japan, while Rational Decay Alpha outperformed in markets outside Japan
- Emerging markets: Investors continue to prefer large cap names, weighing down performance of Natural Logarithm of Market Capitalization

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Table 1

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

Factor	Factor Group	US Large Cap	US Small Cap	Developed Europe	Developed Pacific ex Japan	Japan Standard Cap	Emerging Markets
Book-to-Market		6.44	4.30	4.82	2.32	1.45	1.00
Forward 12-M EPS-to-Enterprise Value	Deep Value	4.51	6.21	-0.79	-2.08	0.47	-1.44
TTM EBITDA-to-Enterprise Value		0.82	3.13	0.37	0.13	-0.39	-1.74
TTM Free Cash Flow-to-Enterprise Value		0.43	4.25	0.07	0.36	1.07	-0.29
Industry Relative Leading 4-QTRs EPS to Price		0.84	3.28	1.12	-0.48	2.41	-0.73
Industry Relative TTM Dividend Yield	Relative Value	0.15	-2.25	-1.12	-3.13	0.67	-1.38
Fixed Assets Turnover Ratio	Management Quality	-3.24	-1.19	0.78	-1.70	4.71	-1.89
Inventory Turnover Ratio		2.49	4.87	0.62	2.58	0.96	-0.20
Net Operating Asset Turnover		0.24	0.41	-0.71	0.14	3.86	-1.39
Change in Accruals to Assets	Earnings Quality	-0.59	0.95	-1.86	0.46	1.45	3.19
Change in TTM COGS vs. Inventory Level		0.25	-2.19	-0.85	1.40	-2.12	0.60
Change in TTM Sales vs. Accounts Receivable		-6.25	-4.34	-0.42	0.00	-1.78	-1.62
Working Capital Accruals		0.33	-0.50	0.00	0.35	-0.38	-2.57
1-yr Growth in TTM Free Cash Flow	Historical Growth	-0.11	2.91	-0.96	0.47	-0.44	-0.25
Reinvestment Rate		-5.92	0.65	-3.64	-1.32	-1.36	-1.29
Average Monthly Trading Volume-to-Market Cap		6.12	-2.34	2.64	0.22	6.04	-4.77
60-Month Beta	Liquidity, Risk & Size	-8.91	-6.88	-4.94	-2.65	-5.19	1.08
Asset Quality Index		0.93	0.06	1.33	0.37	-0.37	0.79
Operating Leverage		0.70	0.22	-0.86	-1.60	-0.03	0.34
Natural Logarithm of Market Capitalization		4.59	0.14	1.78	1.27	-1.97	-3.32
2-Year Ahead EPS Growth	Earnings Momentum	2.46	2.89	3.16	0.76	2.80	1.98
3-M Revision in FY2 EPS Forecasts		6.33	6.81	1.21	1.09	2.69	1.42
Real Earnings Surprise		0.93	4.01	0.15	0.06	0.42	-1.34
24-Month Value at Risk	Price Momentum	-9.05	-4.47	-4.36	-1.69	-2.49	-0.42
5-day Industry Relative Return		-1.55	-3.44	-1.80	-3.26	-2.06	-4.51
Industry-adjusted 12-month Relative Price Strength		0.77	0.34	-2.46	2.39	1.93	2.53
Rational Decay Alpha		-6.48	-4.02	-6.56	1.98	-0.30	-1.53
Demand Supply Ratio	Short Sentiment	-0.90	4.06	-1.92	1.70	-0.01	5.40
Implied Loan Rate		0.72	-0.41	0.65	2.30	1.66	2.22

Source: IHS Markit

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United States

US Large Cap

The US manufacturing PMI dropped to a five-month low in September (60.7), from 61.1 in August, as production was hampered by ongoing material and labor shortages. Equities also slumped, snapping a seven-month winning streak, weighed down by concerns over delta variant cases, supply-chain disruptions and inflation.

Valuation measures took on a more prominent role among leading factor performers in US large caps in September (Table 2). 60-Month Alpha (11.33%), a long term price reversal metric, led the way, extending the 12-month cumulative sum in spreads to 47.0% (Figure 1). Investors also took on more risk exposure, sending factors such as 24-Month Value at Risk (-9.05%) to the laggard board (Table 3), while also shunning growth stocks gauged by measures such as Yearly TTM Total Sales Growth Rate (-8.00%).

Table 2

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

Factor	Decile spread (%)	Factor group
60-Month Alpha	11.33	Price Momentum
36-Month Active Return with 1-Month Lag	11.07	Price Momentum
60-Month Active Return with 12-Month Lag	9.97	Price Momentum
Time Weighted Cash Yield	9.48	Deep Value
60-Month Active Return with 1-Month Lag	9.44	Price Momentum
Leading 12 Month Cash Yield	9.40	Deep Value
Price-to-Total Assets	9.07	Deep Value
36-Month Sharpe Ratio	8.81	Price Momentum
Altman Z Score	8.65	Liquidity, Risk & Size
Treynor Index	8.64	Price Momentum
Current Liabilities-to-Price	8.42	Liquidity, Risk & Size
Sortino Ratio	8.32	Price Momentum
Time Weighted Book Yield	8.29	Deep Value
Leading 12 Month EBITDA/ EV	8.08	Deep Value
Time Weighted Sales Yield	7.94	Deep Value

Source: IHS Markit

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Figure 1

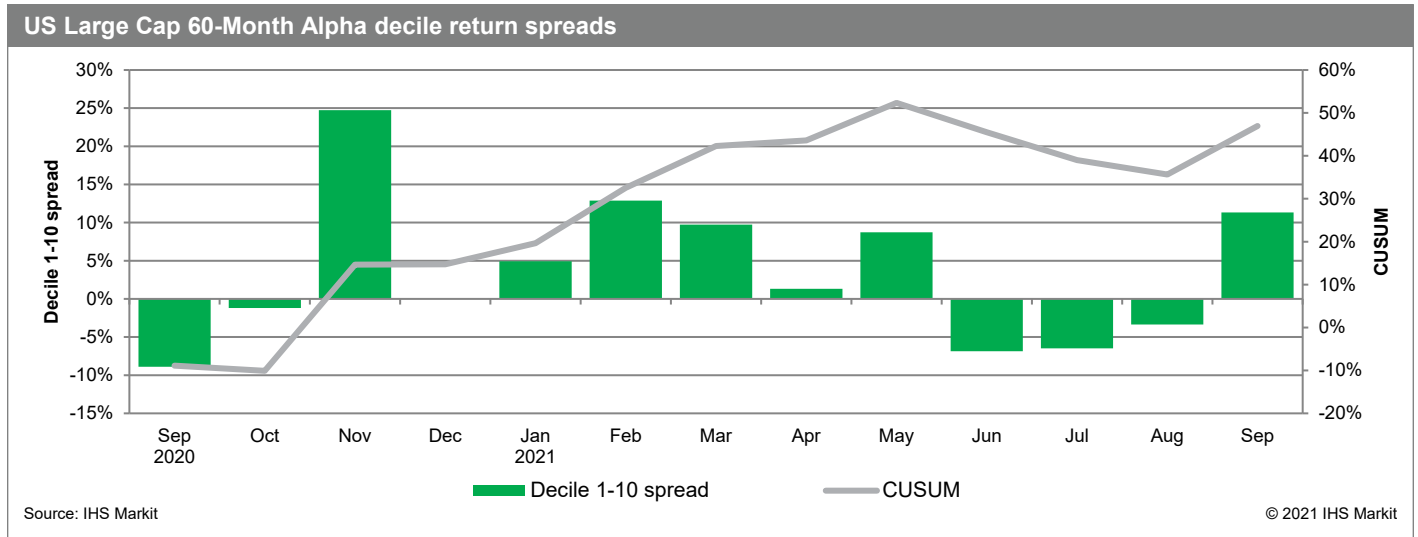


Table 3

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

Factor	Decile spread (%)	Factor group
Std Dev of FY2 EPS Estimates-to-Price	-9.72	Earnings Momentum
24-Month Value at Risk	-9.05	Price Momentum
60-Month Beta	-8.91	Liquidity, Risk & Size
Std Dev of FY1 EPS Estimates-to-Price	-8.84	Earnings Momentum
R-Sqr of 3-yr TTM Oper Cash Flow Trend Line	-8.60	Historical Growth
24-Month Active Return with 1-Month Lag	-8.34	Price Momentum
Product of Beta and Sigma	-8.31	Liquidity, Risk & Size
Market Volatility Sensitivity	-8.12	Macro
Yearly TTM Total Sales Growth Rate	-8.00	Historical Growth
3-yr Compound Annual Sales Growth	-7.90	Historical Growth

Source: IHS Markit

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US Small Cap

Small cap top (Table 4) and bottom (Table 5) factor performance took on similar exposures as with large caps in September. Net Current Assets-to-Price (9.20%) and 60-Month Beta (-6.88%) are two such measures that turned in positive returns for deep value (decile 1) and high risk (decile 10) stocks, respectively, a trend that has been in place for most of the prior year (Figure 2). Other top performing factors include Inflation Sensitivity (7.24%) and Averaged Last 6-M EPS Revisions for FY2 (7.16%), while Market Volatility Sensitivity (-6.99%) and Price Above Last 260-day Lowest Trading Price (-5.75%).

Table 4

US Small Cap top decile return spread factor performance, Sep 2021

Factor	Decile spread (%)	Factor group
Net Current Assets-to-Price	9.20	Deep Value
TTM Operating Cash Flow-to-Price	9.05	Deep Value
6-Month Active Return with 1-Month Lag	8.63	Price Momentum
Current Ratio	8.48	Liquidity, Risk & Size
Leading 12 Month EBITDA/ EV	8.18	Deep Value
Time Weighted Earnings Yield	8.06	Deep Value
TTM Operating Income to Enterprise Value	7.95	Deep Value
60-Month Alpha	7.81	Price Momentum
Quick Ratio	7.67	Liquidity, Risk & Size
Tobin q	7.64	Liquidity, Risk & Size
Time Weighted EBITDA/ EV	7.59	Deep Value
Working Capital-to-Trailing 12-Month Sales	7.54	Management Quality
Inflation Sensitivity	7.24	Macro
Market Leverage	7.18	Liquidity, Risk & Size
Averaged Last 6-M EPS Revisions for FY2	7.16	Earnings Momentum

Source: IHS Markit

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Table 5

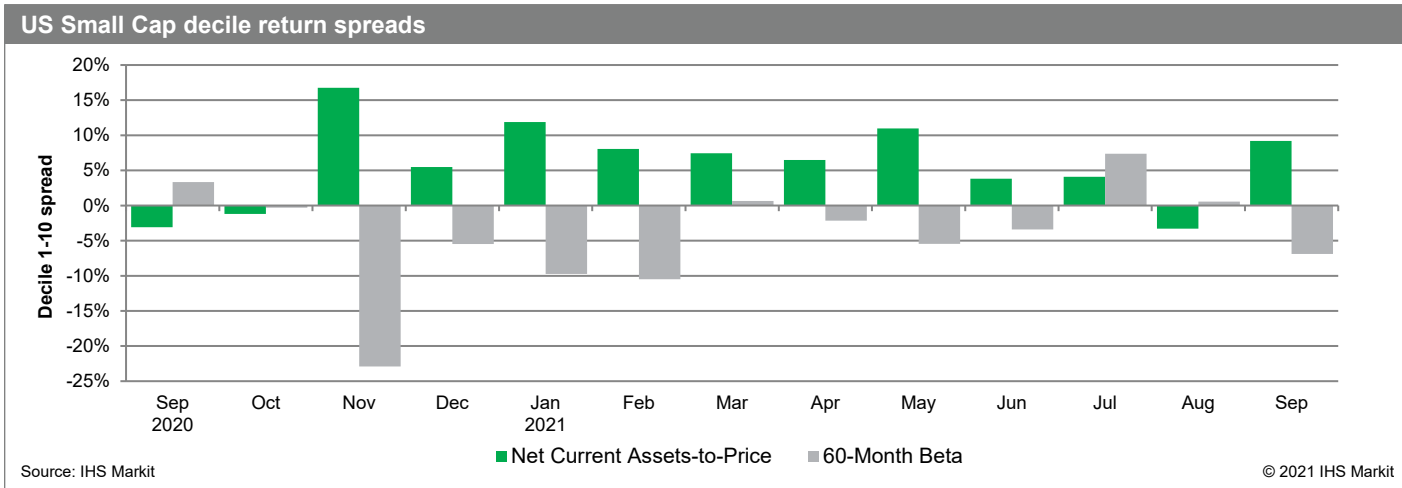
US Small Cap bottom decile return spread factor performance, Sep 2021

Factor	Decile spread (%)	Factor group
Market Volatility Sensitivity	-6.99	Macro
60-Month Beta	-6.88	Liquidity, Risk & Size
TTM Capital Expenditures-to-Price	-6.47	Deep Value
Debt to Market Cap	-6.36	Liquidity, Risk & Size
Advertising Intensity	-6.08	Management Quality
Price Above Last 260-day Lowest Trading Price	-5.75	Price Momentum
Demand Value Concentration	-5.70	Short Sentiment
Cash to Enterprise Value	-5.69	Deep Value
Short Concentration Ratio	-5.63	Short Sentiment
3-yr Change in Price-adj TTM Cash Flow	-5.41	Historical Growth

Source: IHS Markit

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Figure 2



Europe

Eurozone manufacturing sector growth continued to slow in September (PMI: 58.6), dropping from 61.4 in August, as supply-side constraints impacted goods producers and inflationary pressures persisted. Austria topped the growth rankings, while Germany registered the most notable monthly slowdown. European shares ended their seven-month winning streak, as volatile markets pushed stocks to their worst monthly performance in a year.

Like US markets, European investors favored undervalued, high risk shares in September. Factors encapsulating these respective themes include Price-to-Total Assets (7.62%), which resided among the top performing factors (Table 6), and 60-Month Beta (-4.94%) in the bottom. In fact, the distribution of decile returns across these signals (Figure 3) reveals positive average decile performance isolated to the top two deciles of undervalued names and the bottom decile of the highest risk shares. Other factor performance of interest includes outperformance of Net Debt Ratio (6.58%), a Management Quality measure, and 24-Month Active Return with 1-Month Lag (-7.27%), a Price Momentum metric.

Table 6

Developed Europe top decile return spread factor performance, Sep 2021

Factor	Decile spread (%)	Factor group
Altman Z Score	8.90	Liquidity, Risk & Size
36-Month Active Return with 1-Month Lag	7.77	Price Momentum
Price-to-Total Assets	7.62	Deep Value
Current Liabilities-to-Price	7.40	Liquidity, Risk & Size
60-Month Alpha	7.07	Price Momentum
Industrial Production Sensitivity	6.72	Macro
60-Month Active Return with 1-Month Lag	6.63	Price Momentum
Time Weighted Cash Yield	6.62	Deep Value
Market Leverage	6.59	Liquidity, Risk & Size
Net Debt Ratio	6.58	Management Quality
Tobin q	6.39	Liquidity, Risk & Size
Cash-to-Price	6.26	Deep Value
Ohlson Bankruptcy Score	5.95	Liquidity, Risk & Size
Net Current Assets-to-Price	5.88	Deep Value
Graham Number Fair Value Premium	5.38	Deep Value

Source: IHS Markit

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Table 7

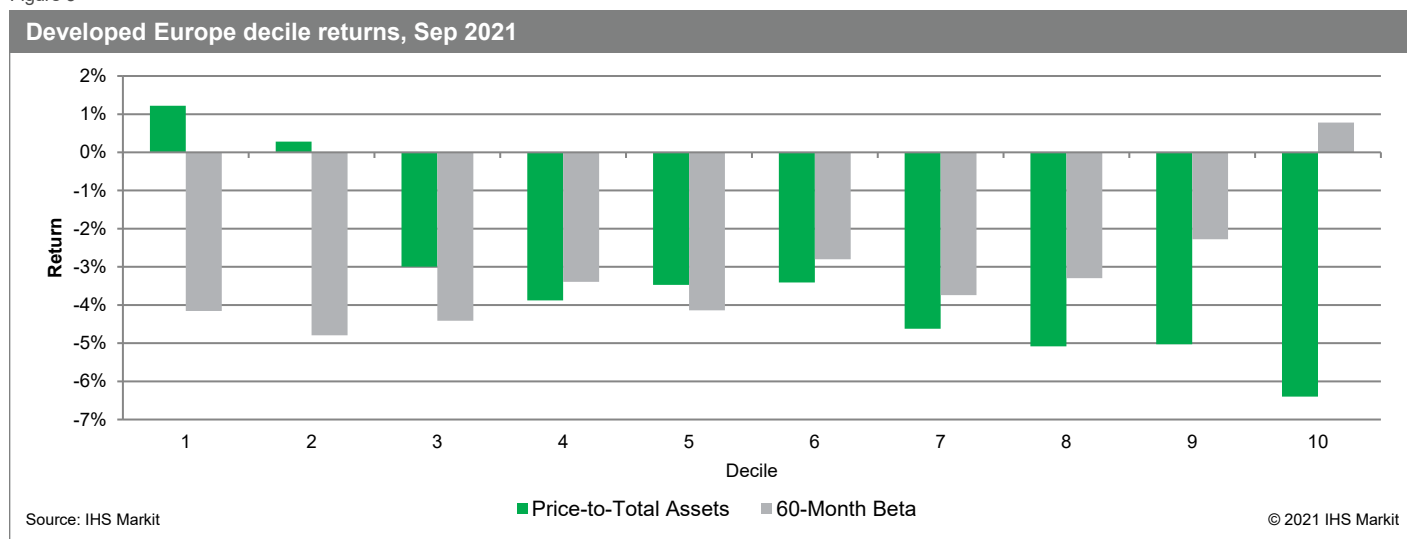
Developed Europe bottom decile return spread factor performance, Sep 2021

Factor	Decile spread (%)	Factor group
24-Month Active Return with 1-Month Lag	-7.27	Price Momentum
18-Month Active Return with 1-Month Lag	-7.20	Price Momentum
Debt to Market Cap	-6.67	Liquidity, Risk & Size
Rational Decay Alpha	-6.56	Price Momentum
Std Dev of FY1 EPS Estimates-to-Price	-5.93	Earnings Momentum
Std Dev of FY2 EPS Estimates-to-Price	-5.37	Earnings Momentum
Yearly TTM Total Sales Growth Rate	-5.25	Historical Growth
3-yr Compound Annual Sales Growth	-4.98	Historical Growth
60-Month Beta	-4.94	Liquidity, Risk & Size
3-yr Change in Assets-adj TTM Oper Cash Flow	-4.48	Historical Growth

Source: IHS Markit

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Figure 3



Asia-Pacific

The manufacturing sector in the two largest Asian economies of China and Japan saw stabilization in the former while continuing to soften in the latter in September. In China, the manufacturing PMI rose to 50.0 after dipping below the cutoff between expansion and contraction in August (49.2), as new orders returned to growth, though inflationary pressures picked up amid material shortages. In Japan, the PMI eased to 51.5 in September from 52.7 in August, as both output and new orders fell into contraction for the first time since the start of this year, coupled with the sharpest rise in cost burdens for 13 years amid supply chain disruptions. Equities in both countries came off mid-month peaks, as stocks gave up nearly all gains following their sharp rise at the start of September.

In developed markets outside Japan, Price Momentum measures were among the top performing factors in September (Table 8), led by 52-Week High (6.01%), which has been a positive indicator for most of 2021 (Figure 4). Other outperforming factors include Asset Composition (8.27%) and Net Current Assets-to-Price (5.73%). Factors which trailed for the month (Table 9) include Net Debt to EBITDA (-7.71%) and 2-Month Active Return (-7.53%).

As with the broader region, investors in Japan highly rewarded Price Momentum factors in September (Table 10). The traditional Fama-French Momentum factor (6.52%) was the top performer, posting its highest spread over the past year (Figure 5). Other top performing factors include TTM Cash Flow from Investment to Total Assets (5.26%) and TTM Sales-to-Price (4.86%), while Product of Beta and Sigma (-5.47%) and Std Dev of FY2 EPS Estimates-to-Price (-4.57%) sat at the opposite extreme (Table 11).

Table 8

Developed Pacific exJapan top decile return spread factor performance, Sep 2021

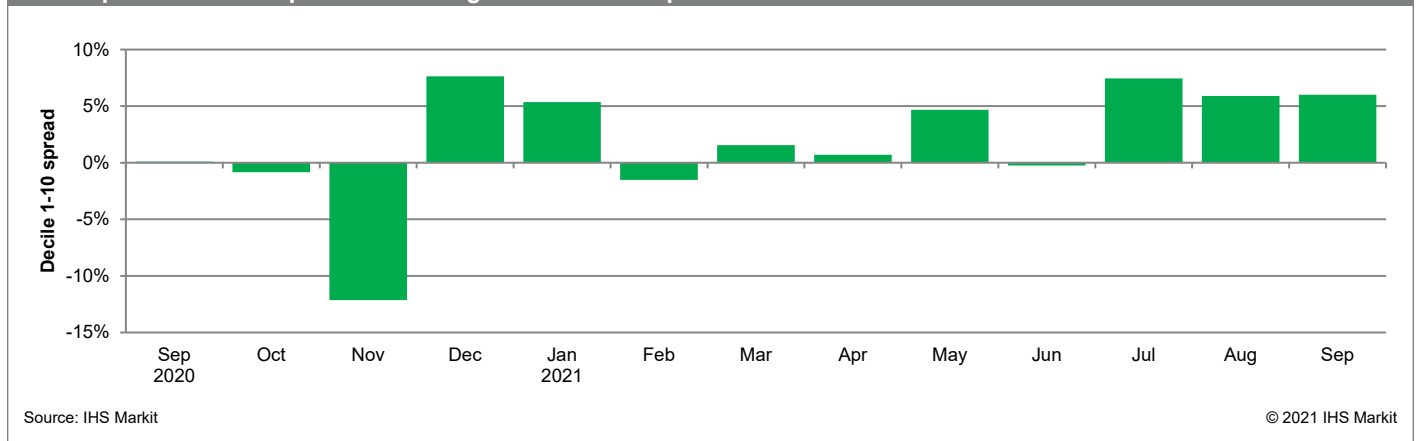
Factor	Decile spread (%)	Factor group
Asset Composition	8.27	Liquidity, Risk & Size
52-Week High	6.01	Price Momentum
Net Current Assets-to-Price	5.73	Deep Value
Credit Risk Premium Sensitivity	5.71	Macro
60-Day Residual Risk	5.48	Liquidity, Risk & Size
Capital Gearing Ratio	4.80	Liquidity, Risk & Size
Basic Defensive Interval	4.77	Liquidity, Risk & Size
60-Month Active Return with 1-Month Lag	4.69	Price Momentum
1-yr Change in Total Assets	4.59	Historical Growth
Cash & Equivalents-to-Current Liabilities	4.55	Liquidity, Risk & Size
Working Capital-to-Total Assets	4.52	Management Quality
CV of Prior 90-Day Closing Prices	4.21	Price Momentum
26-Week Relative Price Strength	4.15	Price Momentum
Quick Ratio	4.15	Liquidity, Risk & Size
Current Ratio	4.09	Liquidity, Risk & Size

Source: IHS Markit

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Figure 4

Developed Pacific exJapan 52-Week High decile return spreads



Source: IHS Markit

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Table 9

Developed Pacific exJapan bottom decile return spread factor performance, Sep 2021

Factor	Decile spread (%)	Factor group
Net Debt to EBITDA	-7.71	Management Quality
2-Month Active Return	-7.53	Price Momentum
4-week Industry Relative Return	-6.13	Price Momentum
3-Month Active Return	-5.24	Price Momentum
Attention Span Ratio	-5.16	Management Quality
5-yr Relative TTM Dividend Yield	-5.03	Relative Value
3-yr Change in Assets-adj TTM EPS	-4.51	Historical Growth
3-yr Change in Assets-adj TTM Cash Flow	-4.41	Historical Growth
Change in QTR SG&A Expenses vs. Sales	-4.11	Earnings Quality
5-yr Relative Leading 12-Month Earnings Yield	-4.09	Relative Value

Source: IHS Markit

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Table 10

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

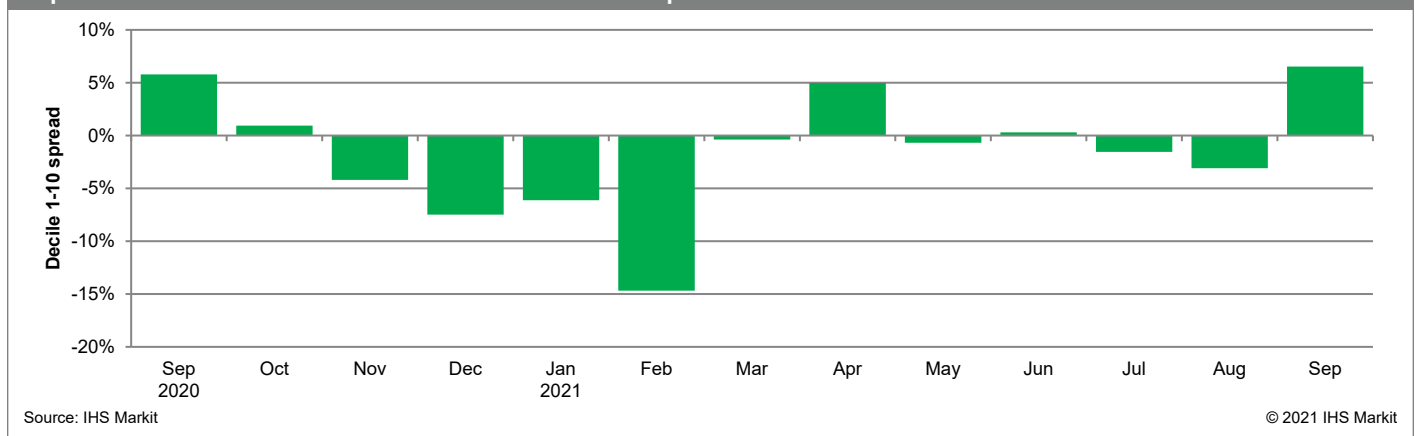
Factor	Decile spread (%)	Factor group
Fama-French Momentum	6.52	Price Momentum
Natural Logarithm of TTM Sales (USD)	6.51	Liquidity, Risk & Size
Average Monthly Trading Volume-to-Market Cap	6.04	Liquidity, Risk & Size
39-Week Return with 4-week Lag	6.04	Price Momentum
30-75 Week Stock Price Ratio	5.93	Price Momentum
9-Month Active Return with 1-Month Lag	5.89	Price Momentum
Natural Logarithm of Closing Price	5.68	Liquidity, Risk & Size
TTM Capital Expenditures-to-Sales	5.43	Management Quality
TTM Cash Flow from Investment to Total Assets	5.26	Management Quality
12-Month Active Return with 1-month Lag	5.01	Price Momentum
15/36 Week Stock Price Ratio	4.93	Price Momentum
TTM Sales-to-Price	4.86	Deep Value
Equity Turnover Ratio	4.85	Management Quality
Forward Free Cash Flow-to-Price	4.73	Deep Value
Fixed Assets Turnover Ratio	4.71	Management Quality

Source: IHS Markit

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Figure 5

Japan Standard Fama-French Momentum decile return spreads



Source: IHS Markit

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Table 11

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

Factor	Decile spread (%)	Factor group
SG&A Expenses-to-Sales	-5.71	Management Quality
Product of Beta and Sigma	-5.47	Liquidity, Risk & Size
Price Above Last 260-day Lowest Trading Price	-5.47	Price Momentum
Stock Return Volatility	-5.31	Liquidity, Risk & Size
60-Month Beta	-5.19	Liquidity, Risk & Size
NOPAT Margin	-4.76	Management Quality
Inventory-to-Total Assets	-4.57	Management Quality
Std Dev of FY2 EPS Estimates-to-Price	-4.57	Earnings Momentum
Operating Cash Flow Profit Margin	-4.30	Management Quality
Average Collection Period	-4.14	Management Quality

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 September. Investors favored larger firms once again, with Natural Logarithm of Total Assets (4.50%) recording a two-month cumulative spread of 8.2% (Figure 6). Other top performing factors include 52-Week High (5.97%), indicating that investors chased stocks trading closest to their annual highs, along with 60-Day Residual Risk (4.12%), a low volatility trade. On the other hand, several measures of high growth and quality underperformed, such as 3-yr Change in Assets-adj TTM EPS (-4.74%) and Cash Flow Return on Invested Capital (-3.96%).

Table 12

Emerging Markets top quintile return spread factor performance, Sep 2021

Factor	Decile spread (%)	Factor group
52-Week High	5.97	Price Momentum
Market Cap per Analyst	5.30	Liquidity, Risk & Size
3-yr Compound Annual TTM EPS after Extra Items-to-Price Growth Rate	4.94	Historical Growth
Trading Turnover Ratio	4.87	Liquidity, Risk & Size
Average Trading Volume in Preceding 6-month	4.75	Price Momentum
20-Day Volume Volatility to Price Volatility	4.58	Liquidity, Risk & Size
Natural Logarithm of Total Assets	4.50	Liquidity, Risk & Size
60-Day Residual Risk	4.12	Liquidity, Risk & Size
3-yr Compound Annual Operating Profit Margin	3.95	Historical Growth
36-Month Active Return with 1-Month Lag	3.94	Price Momentum
1-Month Stock Return Interquartile Range	3.94	Liquidity, Risk & Size
Net Cash to Equity	3.87	Liquidity, Risk & Size
Slope of 66 Week Price Trend Line	3.79	Price Momentum
Working Capital-to-Total Assets	3.74	Management Quality
1-Month Realized Stock Return Volatility	3.71	Liquidity, Risk & Size

Source: IHS Markit

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Table 13

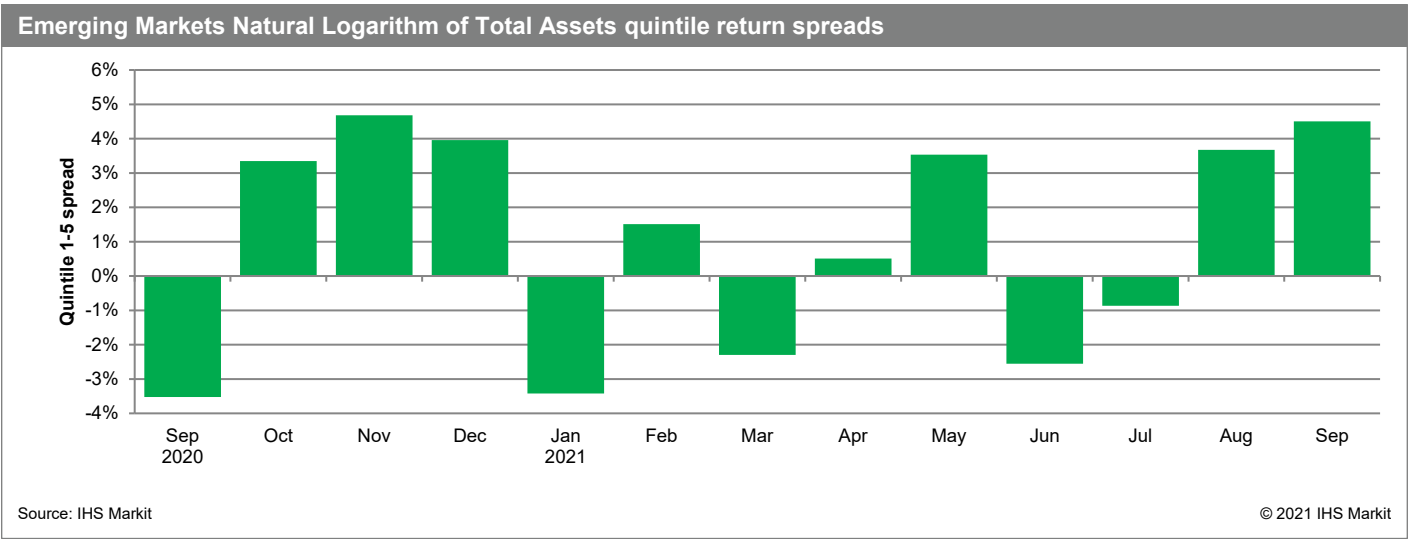
Emerging Markets bottom quintile return spread factor performance, Sep 2021

Factor	Decile spread (%)	Factor group
Average Monthly Trading Volume-to-Market Cap	-4.77	Liquidity, Risk & Size
3-yr Change in Assets-adj TTM EPS	-4.74	Historical Growth
2-Month Active Return	-4.72	Price Momentum
3-yr Growth in TTM Earnings per Share	-4.66	Historical Growth
3-yr Growth in TTM Cash Flow	-4.53	Historical Growth
5-day Industry Relative Return	-4.51	Price Momentum
3-yr Change in Assets-adj TTM Cash Flow	-4.29	Historical Growth
3-yr Change in Price-adj TTM EPS	-4.12	Historical Growth
Cash Flow Return on Invested Capital	-3.96	Management Quality
Return on Assets	-3.96	Management Quality

Source: IHS Markit

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Figure 6



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