

Value shares profited from the stock market rebound

October 2022

Research Signals

Investors' hopes rose that central banks would ease off future rate hikes on increasing concerns about slowing global economic activity, as confirmed by the manufacturing sector's second consecutive month in contraction territory, according to the J.P.Morgan Global Manufacturing PMI™. In turn, most equity markets around the globe staged a rebound in October, led by the US, with value factors the beneficiaries across many of our coverage regions (Table 1).

- US: Deep Value factors enjoyed a strong bounce last month, as demonstrated by Forward 12-M EPS-to-Enterprise Value
- Developed Europe: Investors moved out on the risk curve, dragging down performance of 60-Month Beta
- Developed Pacific: Strong performance from Price Momentum measures such as Industry-adjusted 12-month Relative Price Strength extended into October in markets outside Japan
- Emerging markets: Large cap shares were favored last month, as captured by performance of Natural Logarithm of Market Capitalization

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Table 1

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

Factor	Factor Group	US Large	US	Developed	Developed	Japan	Emerging
		Cap	Small Cap	Europe	Pacific ex Japan	Standard Cap	Markets
Book-to-Market		2.06	5.11	3.64	-6.65	-2.22	2.40
Forward 12-M EPS-to-Enterprise Value	Deep Value	8.23	12.11	1.56	0.22	0.08	3.37
TTM EBITDA-to-Enterprise Value		8.09	10.32	1.39	3.35	-0.87	3.78
TTM Free Cash Flow-to-Enterprise Value		7.06	8.20	3.48	0.22	1.14	2.63
Industry Relative Leading 4-QTRs EPS to Price	Relative Value	5.10	11.21	2.87	-1.15	0.01	4.43
Industry Relative TTM Dividend Yield		0.16	3.92	2.66	-3.29	0.86	0.39
Fixed Assets Turnover Ratio	Management Quality	5.63	2.70	1.20	-2.38	4.41	1.19
Inventory Turnover Ratio		3.58	10.95	0.53	3.00	0.37	1.78
Net Operating Asset Turnover		-0.78	5.23	4.43	-1.27	0.82	-0.22
Change in Accruals to Assets	Earnings Quality	0.86	-4.92	1.12	-1.94	1.29	-0.64
Change in TTM COGS vs. Inventory Level		-1.01	1.74	-0.46	-3.43	0.03	-0.29
Change in TTM Sales vs. Accounts Receivable		4.86	2.38	1.73	-1.30	-1.11	0.83
Working Capital Accruals		-1.00	1.17	0.37	5.48	0.06	-1.35
1-yr Growth in TTM Free Cash Flow	Historical Growth	5.63	-0.37	3.28	2.17	0.75	1.04
Reinvestment Rate		6.23	6.27	0.15	4.89	0.35	3.63
Average Monthly Trading Volume-to-Market Cap	Liquidity, Risk & Size	2.33	-6.66	2.61	-5.79	0.75	0.19
60-Month Beta		-7.70	-8.36	-6.05	-13.18	-8.09	-1.44
Asset Quality Index		2.68	-2.14	1.89	-5.96	1.49	0.26
Operating Leverage		-1.66	-1.85	-0.42	1.44	-0.26	-0.11
Natural Logarithm of Market Capitalization		-0.28	-5.47	-2.05	-3.13	-0.30	-2.12
2-Year Ahead EPS Growth	Earnings Momentum	3.05	-3.44	-0.30	-8.16	0.33	0.31
3-M Revision in FY2 EPS Forecasts		2.27	1.87	0.60	8.45	-0.63	3.08
Real Earnings Surprise		4.02	-0.67	-0.89	2.49	0.24	2.01
24-Month Value at Risk	Price Momentum	1.33	6.24	-4.28	0.60	-3.87	0.87
5-day Industry Relative Return		1.43	0.88	0.14	4.78	6.82	-0.48
Industry-adjusted 12-month Relative Price Strength		3.56	2.57	-1.46	6.95	2.34	-1.25
Rational Decay Alpha		1.78	4.85	-2.18	6.96	2.19	0.06
Demand Supply Ratio		0.95	10.03	-2.37	-3.68	-0.82	7.77
Implied Loan Rate	Short Sentiment	0.87	7.20	-0.57	5.60	-0.65	3.14

Source: IHS Markit

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United States

US Large Cap

US manufacturing firms signaled only a slight improvement in operating conditions in October, with the headline PMI posting at 50.4, down from 52.0 in September, with new orders falling at the sharpest rate since May 2020. As economic data softened, stocks staged an impressive rebound last month with thoughts of the Federal Reserve easing off its aggressive rate hike plans.

Deep Value measures regained favor in October, as confirmed by the list of top performing factors for US large caps (Table 2). Leading 12 Month EBITDA/EV (12.15%) is one such measure, posting a monthly spread more than double its prior 12-month average of 5.50% (Figure 1). The risk-off trade which was prevalent in September also unwound, sending measures such as Product of Beta and Sigma (-8.99%) to the laggard board (Table 3), alongside 6-Month Nominal Change in 18-Month Alpha (-9.67%) and Std Dev of FY1 EPS Estimates-to-Price (-6.54%).

Table 2

US Large Cap top decile return spread factor performance, October 2022		
Factor	Decile spread (%)	Factor group
Time Weighted Cash Yield	12.57	Deep Value
Leading 12 Month EBITDA/ EV	12.15	Deep Value
Oil Prices Sensitivity	11.89	Macro
Leading 12 Month Cash Yield	11.61	Deep Value
Time Weighted EBITDA/ EV	11.53	Deep Value
Time Weighted Earnings Yield	11.02	Deep Value
Leading 12-Month Mean Earnings Yield	10.35	Deep Value
Natural Logarithm of TTM Sales (USD)	10.14	Liquidity, Risk & Size
Leading 12-Month Median Earnings Yield	10.08	Deep Value
Leading 12 Month Sales Yield	9.95	Deep Value
Time Weighted Sales Yield	9.88	Deep Value
Current Liabilities-to-Price	9.77	Liquidity, Risk & Size
1-yr Change in Asset Turnover Ratio	9.53	Historical Growth
TTM EBITDA-to-Price	9.50	Deep Value
TTM Sales-to-Price	9.50	Deep Value

Source: IHS Markit

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Figure 1

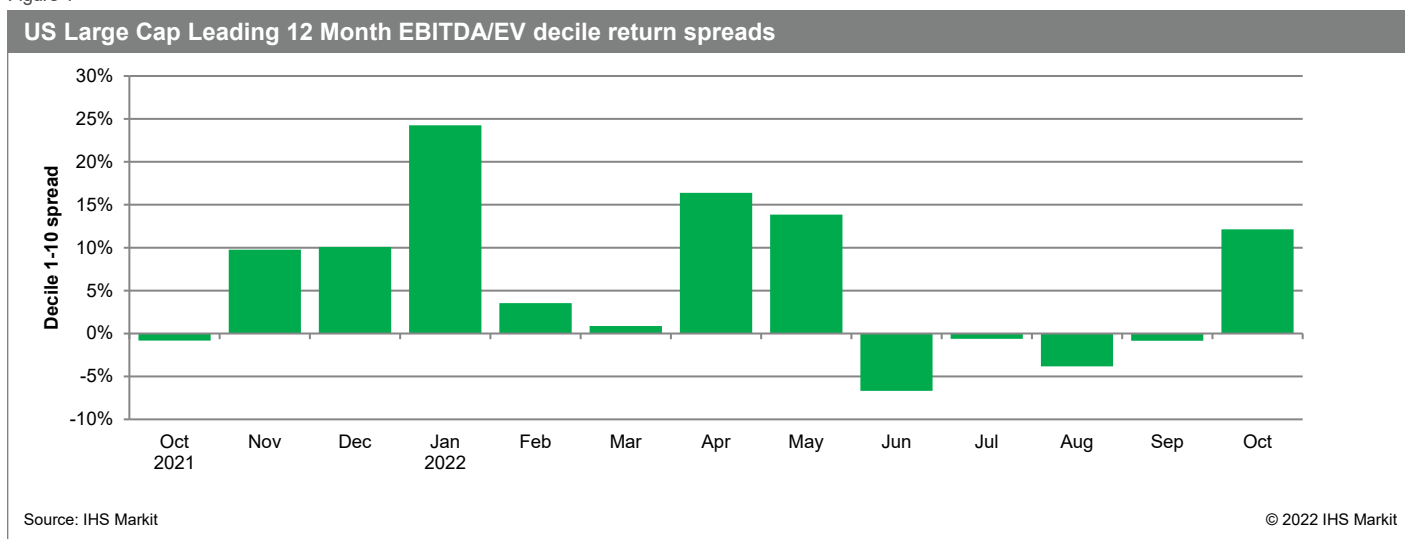


Table 3

US Large Cap bottom decile return spread factor performance, October 2022

Factor	Decile spread (%)	Factor group
6-Month Nominal Change in 18-Month Alpha	-9.67	Price Momentum
Growth Duration	-9.22	Liquidity, Risk & Size
Product of Beta and Sigma	-8.99	Liquidity, Risk & Size
3-yr Compound Annual Sales Growth	-8.27	Historical Growth
60-Month Beta	-7.70	Liquidity, Risk & Size
Debt to Market Cap	-7.49	Liquidity, Risk & Size
Stability of 3-yr TTM Cash Flow	-7.41	Historical Growth
Stock Return Volatility	-7.32	Liquidity, Risk & Size
Std Dev of FY1 EPS Estimates-to-Price	-6.54	Earnings Momentum
Std Dev of FY2 EPS Estimates-to-Price	-6.46	Earnings Momentum

Source: IHS Markit © 2022 IHS Markit

US Small Cap

Deep Value was also a strong performing signal among small caps, though Management Quality measures topped the list of outperforming factors in October (Table 4). Included is Forward Return on Equity (13.62%) which has posted double-digit performance in six months since this time last year (Figure 2). On the other hand, factors which trailed for the month (Table 5) include 60-Month Beta (-8.36%), 6-Month Nominal Change in 18-Month Alpha (-7.27%) and Stability of 3-yr TTM Earnings per Share (-6.85%).

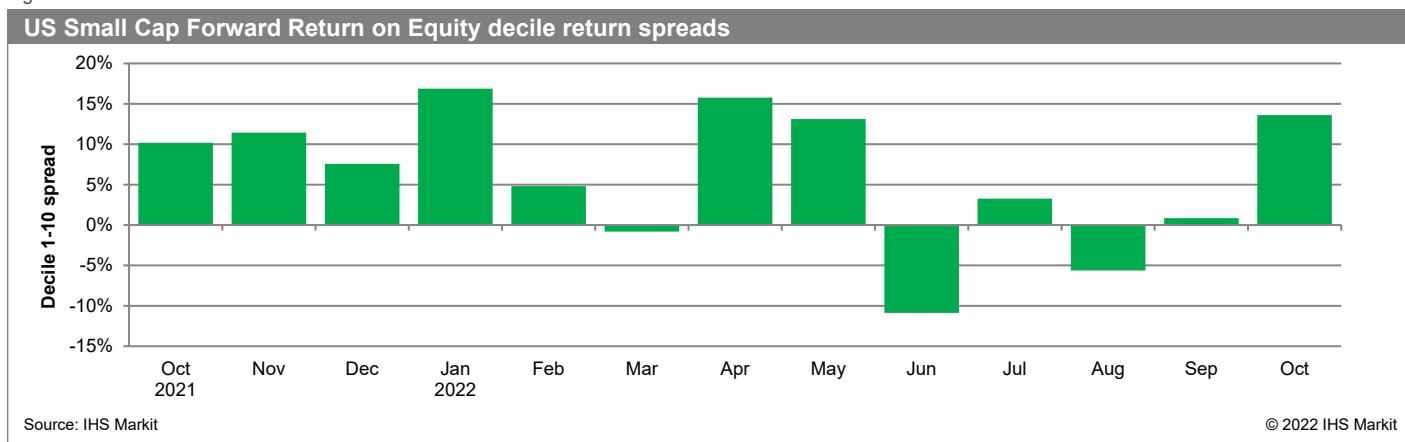
Table 4

US Small Cap top decile return spread factor performance, October 2022		
Factor	Decile spread (%)	Factor group
SG&A Expenses-to-Sales	15.16	Management Quality
Forward Return on Equity	13.62	Management Quality
30-75 Week Stock Price Ratio	12.97	Price Momentum
Time Weighted Earnings Yield	12.67	Deep Value
Leading 12-Month Mean Earnings Yield	12.57	Deep Value
TTM Operating Income to Enterprise Value	12.55	Deep Value
Leading 12-Month Median Earnings Yield	12.50	Deep Value
TTM EBITDA-to-Price	12.41	Deep Value
TTM Cash Flow-to-Price	12.41	Deep Value
Forward 12-M EPS-to-Enterprise Value	12.11	Deep Value
Oper Cash Flow Return on Invested Capital	12.10	Management Quality
24-Month Active Return with 1-Month Lag	11.99	Price Momentum
Edwards-Bell-Ohlson Value-to-Price	11.81	Deep Value
Fama-French Momentum	11.72	Price Momentum
Cash Flow Return on Invested Capital	11.54	Management Quality

Source: IHS Markit

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Figure 2



Source: IHS Markit

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Table 5

US Small Cap bottom decile return spread factor performance, October 2022		
Factor	Decile spread (%)	Factor group
Advertising Intensity	-15.23	Management Quality
Asia-Pacific Sales Exposure	-11.38	Macro
Product of TTM FCF Yield and Forward ROE	-8.87	Earnings Momentum
60-Month Beta	-8.36	Liquidity, Risk & Size
Ohlson Bankruptcy Score	-7.86	Liquidity, Risk & Size
6-Month Nominal Change in 18-Month Alpha	-7.27	Price Momentum
Stability of 3-yr TTM Earnings per Share	-6.85	Historical Growth
Average Monthly Trading Volume-to-Market Cap	-6.66	Liquidity, Risk & Size
Natural Logarithm of Closing Price (USD)	-6.65	Liquidity, Risk & Size
Cash to Enterprise Value	-6.45	Deep Value

Source: IHS Markit

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Europe

The eurozone manufacturing sector slid further into contraction territory in October, with the PMI falling to 46.4, from 48.4 in September, its lowest level since the initial COVID-19 wave as demand for goods plummeted. Ireland was the only monitored euro area country in expansion territory, while Spain and Germany were the worst performing nations. However, equities followed US markets higher despite the region's continued energy and inflation concerns.

The top performing factors in Developed Europe in October (Table 6) also followed suit with US markets, with a prominence of Deep Value measures such as TTM Sales-to-Price (7.60%) and Time Weighted Cash Yield (6.80%). At the opposite end of the spectrum, factors which underperformed in October (Table 7) include several risk measures, suggesting higher risk taking. For example, the distribution of decile returns across 60-Month Beta (-6.05%) are increasing in general from the lowest risk shares (decile 1) to the highest risk (decile 10), indicating systematic trading across this signal (Figure 3).

Table 6

Developed Europe top decile return spread factor performance, October 2022

Factor	Decile spread (%)	Factor group
Oil Prices Sensitivity	8.32	Macro
TTM Sales-to-Price	7.60	Deep Value
Current Liabilities-to-Price	6.89	Liquidity, Risk & Size
Time Weighted Cash Yield	6.80	Deep Value
TTM Free Cash Flow-to-Price	6.63	Deep Value
TTM Sales-to-Enterprise Value	6.61	Deep Value
60-Month Active Return with 1-Month Lag	6.52	Price Momentum
Leading 12 Month Sales Yield	6.36	Deep Value
Time Weighted Sales Yield	6.33	Deep Value
Natural Logarithm of TTM Sales (USD)	6.12	Liquidity, Risk & Size
Leading 12 Month Cash Yield	5.67	Deep Value
Capital Expenditures to Depreciation Linkage	5.54	Management Quality
TTM Operating Cash Flow-to-Price	5.52	Deep Value
Industry Relative TTM Sales-to-Price	5.36	Relative Value
60-Month Alpha	5.18	Price Momentum

Source: IHS Markit

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Table 7

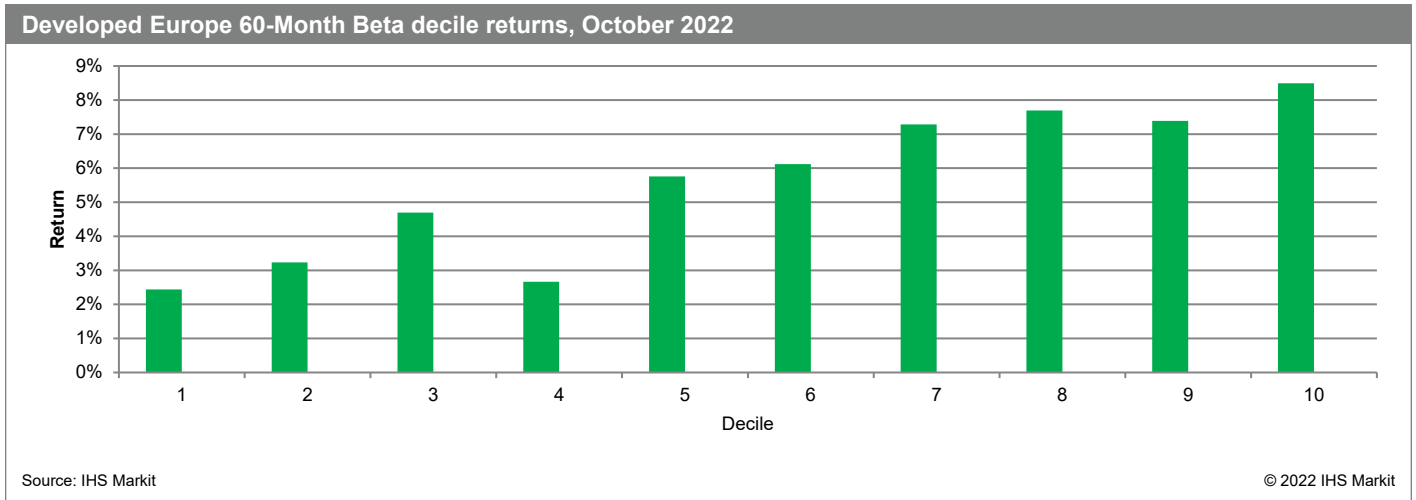
Developed Europe bottom decile return spread factor performance, October 2022

Factor	Decile spread (%)	Factor group
Product of Beta and Sigma	-6.90	Liquidity, Risk & Size
Stock Return Volatility	-6.31	Liquidity, Risk & Size
60-Month Beta	-6.05	Liquidity, Risk & Size
Average Trading Volume in Preceding 6-month	-5.96	Price Momentum
1-Month Stock Return Interquartile Range	-5.41	Liquidity, Risk & Size
20-Day Volume Volatility to Price Volatility	-5.32	Liquidity, Risk & Size
Short Interest	-4.99	Short Sentiment
Trading Turnover Ratio	-4.93	Liquidity, Risk & Size
Std Dev of FY2 EPS Estimates-to-Price	-4.89	Earnings Momentum
Regression Error of 60-Month CAPM	-4.82	Liquidity, Risk & Size

Source: IHS Markit

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Figure 3



Asia-Pacific

Manufacturing operating conditions remained on opposite sides of the 50 no-change mark in the two largest Asian economies of China and Japan in October. In China, the manufacturing PMI signaled further contraction, though with a marginal rise to 49.2 in October, from 48.1 in September, as the COVID-19 restrictions weighed on both output and demand. In Japan, the flash PMI fell to 50.7 in October, from 50.8 in September, the weakest reading in 21 months on declines in output and new orders, albeit at softer paces. Stocks also moved in opposite directions as shares in Japan rose for the month, while equity markets in China struggled following President Xi's re-election.

In developed markets outside Japan, Price Momentum factors remained at the top of the performance leaderboard in October (Table 8). The top performer was 50-200 Day Stock Price Ratio (11.98%), extending its string of positive spreads to four months (Figure 4). Alternatively, the weakest performing factors for the month (Table 9) include 36-Month Active Return with 1-Month Lag (-14.59%), a long-term price reversal metric, and Altman Z Score (-13.34%), a risk measure of firms with a higher likelihood of bankruptcy.

In Japan, short-term price reversal metrics topped the list of outperforming factors in October (Table 10). 5-day Industry Relative Return (6.82%) took the lead, with a spike in spread (Figure 5) at a level not seen since August 2020. 60-Month Beta (-8.09%) sat at the opposite extreme of factor performance last month (Table 11), followed by other measures such as Average Trading Volume in Preceding 6-month (-5.06%) and 52-Week High (-4.58%).

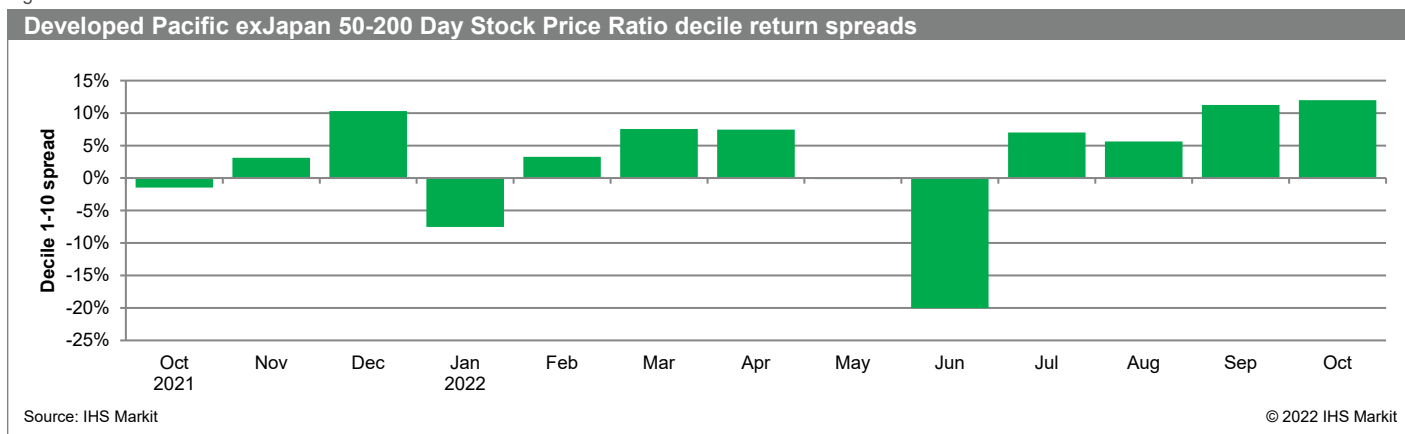
Table 8

Developed Pacific exJapan top decile return spread factor performance, October 2022		
Factor	Decile spread (%)	Factor group
50-200 Day Stock Price Ratio	11.98	Price Momentum
30-75 Week Stock Price Ratio	11.92	Price Momentum
18-Month Active Return with 1-Month Lag	11.84	Price Momentum
6-Month Active Return with 1-Month Lag	11.73	Price Momentum
Time Weighted Earnings Revision Dispersion	11.57	Earnings Momentum
24-Month Active Return with 1-Month Lag	11.41	Price Momentum
Time Weighted Earnings Revision	10.96	Earnings Momentum
Street Revision Magnitude	10.02	Earnings Momentum
Averaged Last 6-M EPS Revisions for FY1	9.92	Earnings Momentum
39-Week Return with 4-week Lag	9.88	Price Momentum
15/36 Week Stock Price Ratio	9.39	Price Momentum
Fama-French Momentum	9.38	Price Momentum
26-Week Relative Price Strength	9.31	Price Momentum
Street Revision Confidence	9.18	Earnings Momentum
12-Month Active Return with 1-month Lag	9.08	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, October 2022		
Factor	Decile spread (%)	Factor group
Natural Logarithm of Closing Price (USD)	-16.87	Liquidity, Risk & Size
36-Month Active Return with 1-Month Lag	-14.59	Price Momentum
Altman Z Score	-13.34	Liquidity, Risk & Size
60-Month Beta	-13.18	Liquidity, Risk & Size
3-Month Active Return	-12.09	Price Momentum
Trading Turnover Ratio	-12.06	Liquidity, Risk & Size
60-Month Active Return with 12-Month Lag	-11.72	Price Momentum
Average Trading Volume in Preceding 6-month	-11.31	Price Momentum
Current Liabilities-to-Price	-10.92	Liquidity, Risk & Size
60-Month Active Return with 1-Month Lag	-10.89	Price Momentum

Source: IHS Markit

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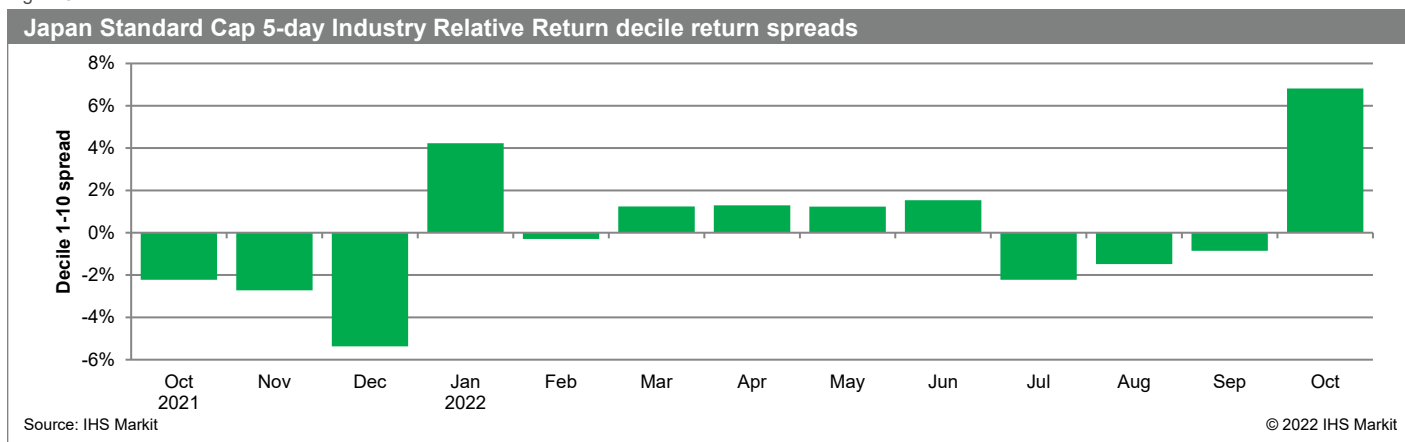
Table 10

Japan Standard Cap top decile return spread factor performance, October 2022		
Factor	Decile spread (%)	Factor group
5-day Industry Relative Return	6.82	Price Momentum
4-week Industry Relative Return	5.41	Price Momentum
1-Month Active Return	5.10	Price Momentum
Fixed Assets Turnover Ratio	4.41	Management Quality
TTM Capital Expenditures-to-Price	4.15	Deep Value
North America Sales Exposure	4.15	Macro
14 Day Relative Strength Index	3.96	Price Momentum
3 Year Change in Gross Profit Margin	3.81	Management Quality
Yearly TTM Total Sales Growth Rate	3.76	Historical Growth
Forward Free Cash Flow-to-Price	3.61	Deep Value
Yield Curve Slope Sensitivity	3.25	Macro
1 Year Change in Gross Profit to Assets	3.22	Management Quality
Cash Flow Leverage	3.19	Liquidity, Risk & Size
Lagged Inverse of PEG Ratio	3.03	Earnings Momentum
TTM Capital Expenditures-to-Sales	3.01	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, October 2022		
Factor	Decile spread (%)	Factor group
60-Month Beta	-8.09	Liquidity, Risk & Size
Product of Beta and Sigma	-7.07	Liquidity, Risk & Size
1-Month Realized Stock Return Volatility	-6.25	Liquidity, Risk & Size
20-Day Volume Volatility to Price Volatility	-6.19	Liquidity, Risk & Size
1-Month Stock Return Interquartile Range	-5.55	Liquidity, Risk & Size
Average Trading Volume in Preceding 6-month	-5.06	Price Momentum
Stock Return Volatility	-4.79	Liquidity, Risk & Size
Market Volatility Sensitivity	-4.61	Macro
52-Week High	-4.58	Price Momentum
60-Day Residual Risk	-4.53	Liquidity, Risk & Size

Source: IHS Markit

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Emerging Markets

We wrap up the report with a review of top (Table 12) and bottom (Table 13) performing factors in emerging markets in October. Like most of our other coverage universes, Deep Value was a dominant signal last month, including Time Weighted Earnings Yield (5.32%) and Forward Free Cash Flow-to-Price (4.97%). On the contrary, factors which lagged for the month once again include short-term price reversal metrics such as 3-Month Active Return (-6.09%). We also highlight the common-currency measure of Natural Logarithm of Market Capitalization (-5.88%), whose sharp decrease in spread indicates a strong move by investors towards the largest cap names (Figure 6).

Table 12

Emerging Markets top quintile return spread factor performance, October 2022		
Factor	Decile spread (%)	Factor group
Natural Logarithm of Total Assets (USD)	6.37	Liquidity, Risk & Size
Natural Logarithm of TTM Sales (USD)	5.96	Liquidity, Risk & Size
Time Weighted Earnings Yield	5.32	Deep Value
TTM Core Earnings-to-Price	5.26	Deep Value
TTM EBITDA-to-Price	5.14	Deep Value
TTM EPS after Extra Items-to-Price	5.06	Deep Value
TTM EPS before Extra Items-to-Price	5.06	Deep Value
Forward Free Cash Flow-to-Price	4.97	Deep Value
Leading 12-Month Mean Earnings Yield	4.96	Deep Value
Leading 12-Month Median Earnings Yield	4.94	Deep Value
Industry Relative TTM EPS-to-Price	4.87	Relative Value
TTM Pretax Income-to-Price	4.84	Deep Value
TTM Cash Flow-to-Price	4.83	Deep Value
Industry Relative TTM EBITDA-to-Price	4.82	Relative Value
9-Month Active Return with 1-Month Lag	4.81	Price Momentum

Source: IHS Markit

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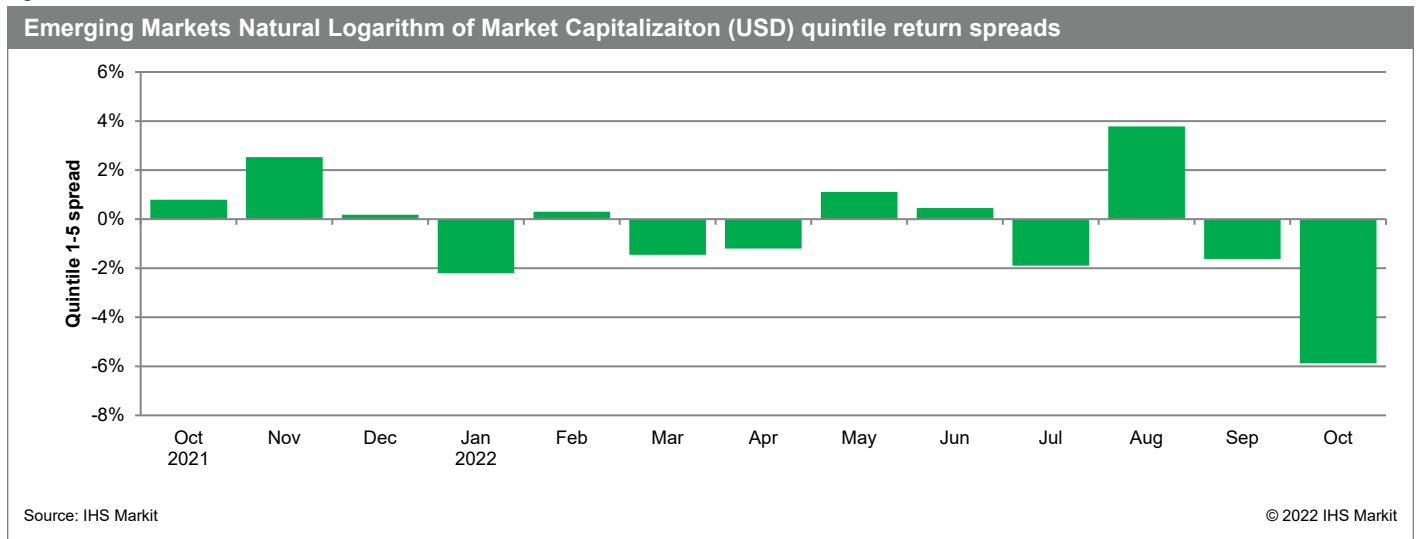
Table 13

Emerging Markets bottom quintile return spread factor performance, October 2022		
Factor	Decile spread (%)	Factor group
3-Month Active Return	-6.09	Price Momentum
Natural Logarithm of Market Capitalization (USD)	-5.88	Liquidity, Risk & Size
2-Month Active Return	-5.44	Price Momentum
Std Dev of FY2 EPS Estimates-to-Price	-5.01	Earnings Momentum
1-Month Active Return	-4.41	Price Momentum
Std Dev of FY1 EPS Estimates-to-Price	-4.39	Earnings Momentum
Change in QTR Sales vs. Gross Margin	-4.33	Earnings Quality
Price Above Last 260-day Lowest Trading Price	-4.29	Price Momentum
Debt to Market Cap	-3.58	Liquidity, Risk & Size
1-yr Change in Total Assets	-3.44	Historical Growth

Source: IHS Markit

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Figure 6



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