

August 2024

Factor Performance Analysis

Recovery after a fleeting moment of panic

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Market Background

Following a weak U.S. labour market report early in August, the global equity markets experienced volatility, a pullback in US and Europe persisted into the first week of August due to the heightened concerns about a potential recession, but most indices recovered a significant portion of their losses by the end of the month.

Meanwhile, the aftermath of Bank of Japan raising its policy rate by 25 basis points triggered a sudden unwinding of carry trade positions. US and European equities favoured Quality and Size in the month of August, while value outperformed in UK.

Crude oil prices climbed to \$72/barrel by the end of August before falling to \$66/ barrel. It peaked to \$74/barrel in the mid of August.

Gold prices continued to surge in July, peaking to \$2,520/ troy ounce at month-end. Crypto was not immune to the early month downturn in equity market plunge. While the traditional market recovered over the month, crypto struggled to recover, with Bitcoin (BTC) dropping by 11%, Ethereum (ETH) declining by 24%, and Solana (SOL) fell by 21%.

Factor Summary

- **US Equities:** Quality, Size and Momentum outperformed.
- **European Equities:** Quality and Size outperformed.
- **UK Equities:** Value outperformed.
- **Emerging Markets Equities:** Growth outperformed.
- **Canadian Equities:** Size and Momentum outperformed.

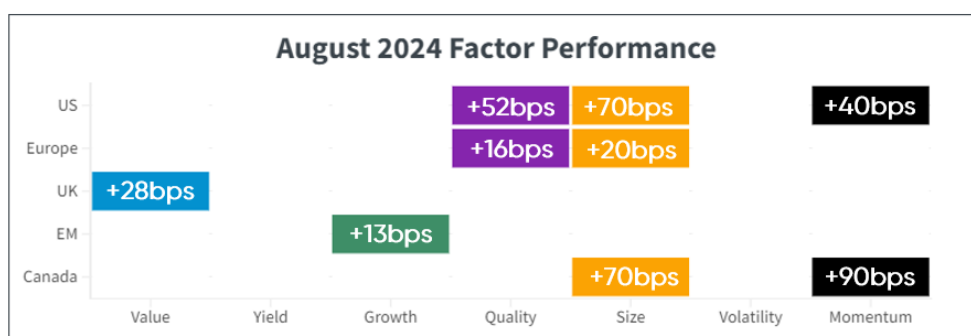


Figure 1: August 2024 Factor Performance (sector adjusted)

Source: Confluence Style Analytics

US Equities

At the start of August, the S&P 500 saw a steep drop in the first trading days, with the Magnificent Seven declining by nearly 10% in the first week. This selloff was primarily driven by increasing concerns over economic growth following July's disappointing payroll report as employers added 142,000 jobs, a figure that was lower than expected. But despite the initial downturn, the U.S. market recovered by late August. Inflation in July dropped to 2.9% from 3% in June.

Quality sub-factors outperformed the market by 52bps, and Size by 70bps, while Value underperformed this month.

Stocks with high return on equity, which contributed to the performance of US in August, include info tech companies Broadcom (2.0% in Aug.), and NVIDIA (2.0% in Aug.) and healthcare company Eli Lilly and Company (19.0% in Aug.) Additionally, companies with stable earnings growth, including info tech company Meta platforms (+10.0% in Aug.), and communication services company Netflix (12.0% in Aug.) also contributed to the outperformance.

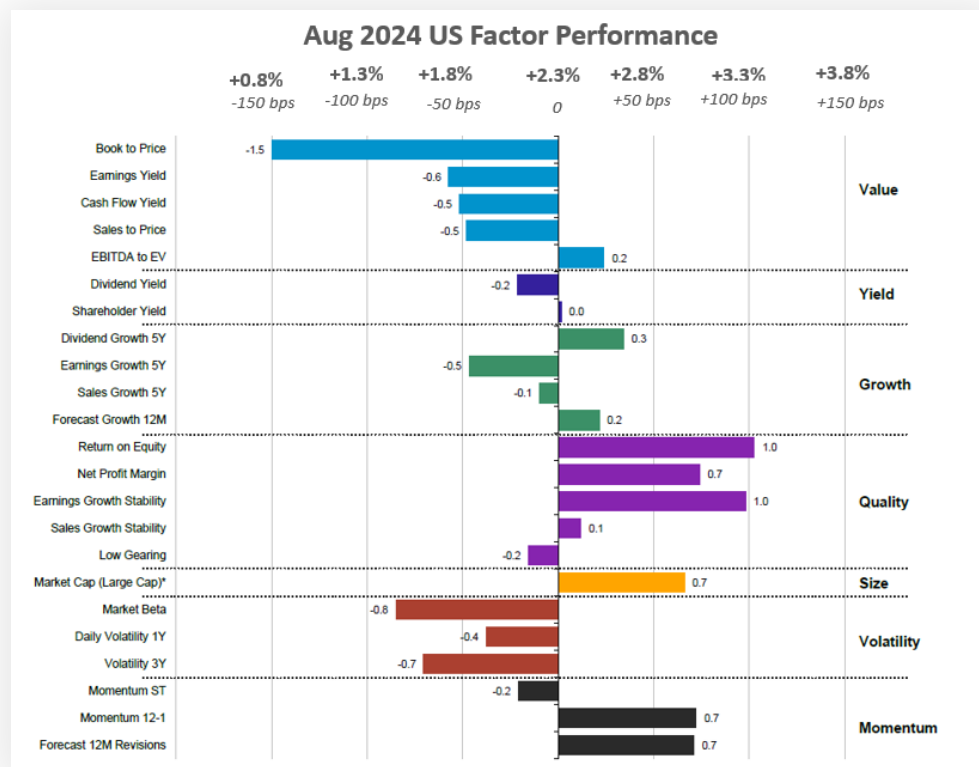


Figure 2: Aug 2024 US Factor Performance (sector adjusted)

Source: Confluence Style Analytics

European Equities

In Europe, much like in the US, Quality and Size outperformed the market, while Value and Volatility lagged behind.

The Eurozone reported a July unemployment rate of 6.4%, down from 6.5% in June and below the forecasted rate. In August 2024, the Eurozone's annual inflation rate dropped to 2.2% from 2.6% the previous month, aligning with market expectations.

Key drivers of high-sales growth 5-year European stocks in the month of Aug include French consumer discretionary company Hermes International (+10% in Aug), and Netherlands financial company Adyen NV (+20% in Aug).

Companies with momentum 12-1 subfactor that contributed to the outperformance of Euro Zone include Italian consumer discretionary company Ferrari NV (+20.0% in Aug); and French financials company Axa SA (+8.0% in Aug).

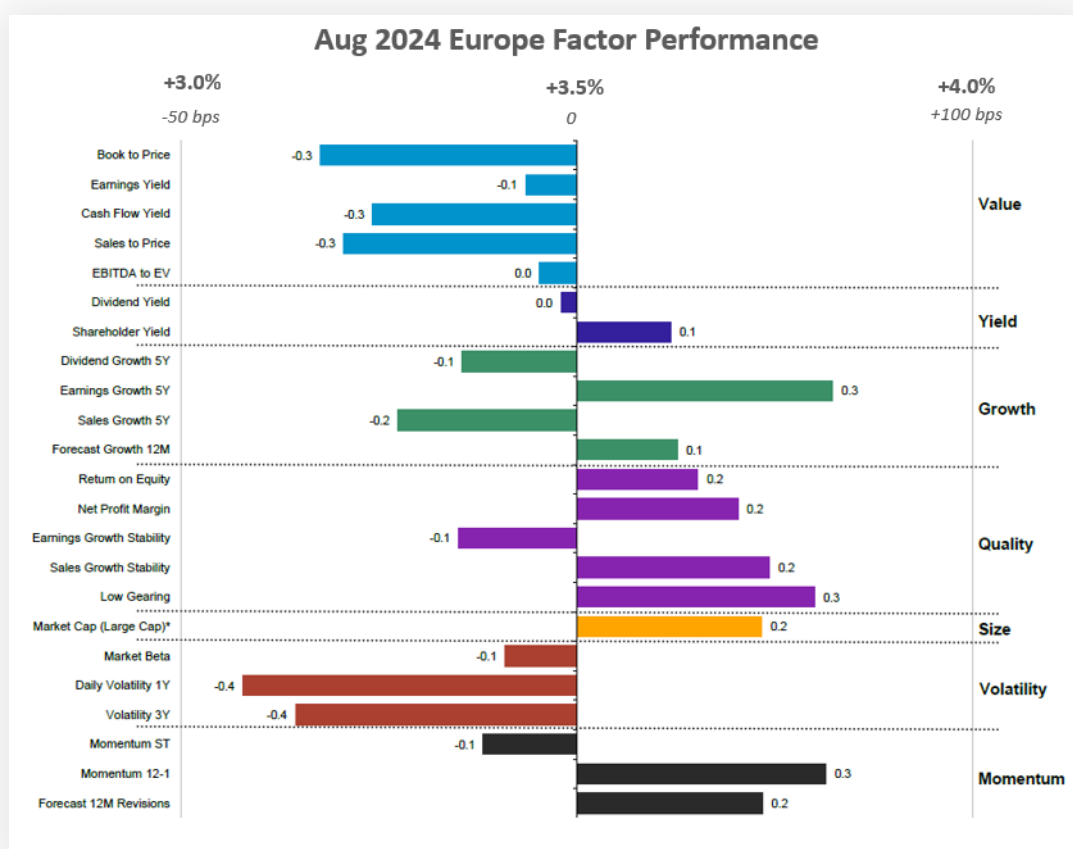


Figure 3: Aug 2024 Europe Factor Performance (country and sector adjusted)

Source: Confluence Style Analytics

UK Equities

In August, there was a clear preference for Value in the UK, with EBITDA to EV outperforming the market by 100 basis points. Although most quality subfactors outperformed the market, stocks with high net profit margins underperformed in July.

In July 2024, the UK inflation rate rose to 2.2%, up from the previous month when it had reached its lowest level since July 2021. In August, the Bank of England (BoE) reduced interest rates by 0.25% to 5%, marking its first cut after a whole year of highs.

British stocks with a strong EBITDA to EV that outperformed this month include healthcare company GSK plc (+13.0% in Aug); financials company London Stock Exchange (+11.0% in Aug.), industrials company Rolls Royce holdings plc (+13.0% in Aug.).

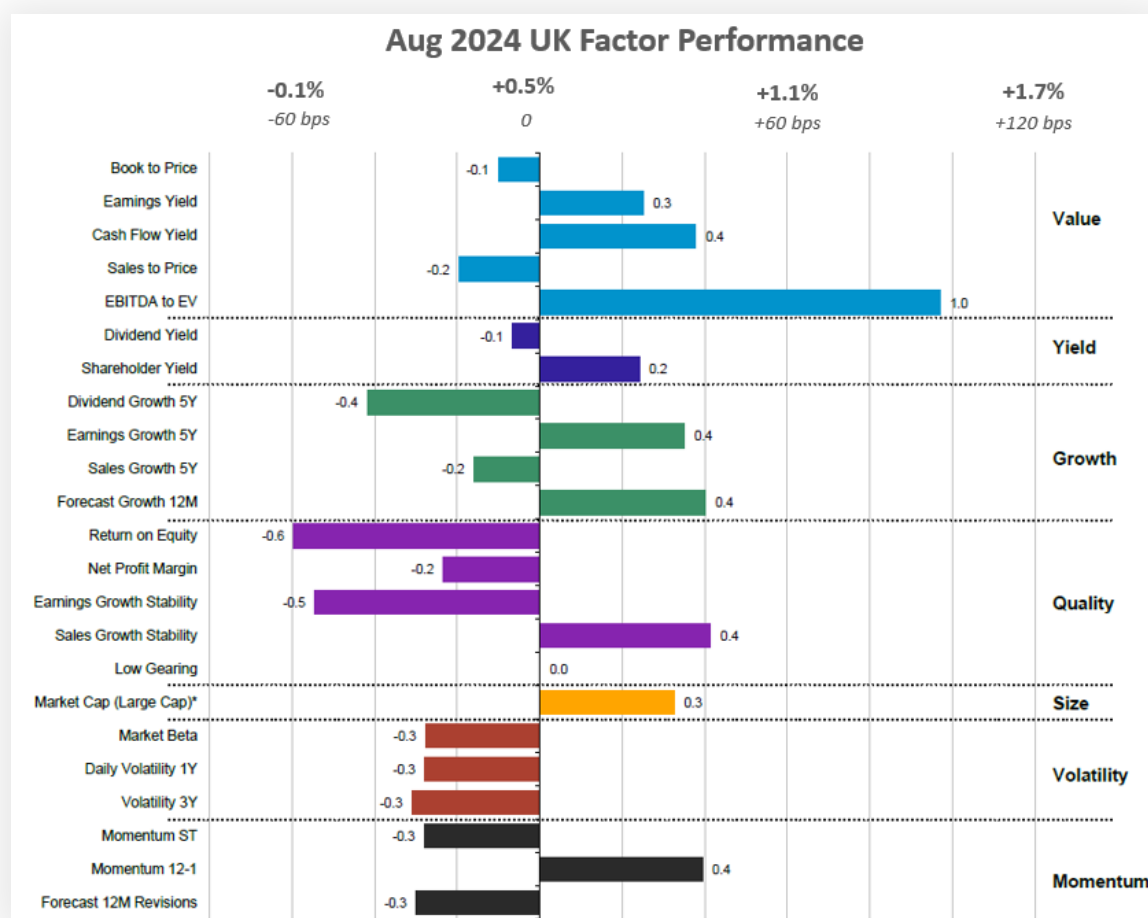


Figure 4: Aug 2024 UK Factor Performance (sector adjusted)

Source: Confluence Style Analytics

Emerging Markets Equities

In July, the factor trend in Emerging Markets favoured Growth, with Forecast Growth 12M outperforming the market by 40 bps. Similar to the U.S. and UK, the Value underperformed. Quality observed a mixed performance, with return on equity and net profit margin surpassing the market.

India and China both reported positive returns in August but fell short of the EM index. China's performance was particularly impacted by weaker economic activity data.

Emerging Markets equities that outperformed in the month of August, captured by the forecast growth 12M subfactor, include a Chinese communication services company Tencent Holdings Ltd (+6.0% in Aug.); Taiwanese info tech company Taiwan Semiconductor manufacturing Corp (+4.0% in Aug.). Companies with strong market beta performance include Consumer Discretionary company Alibaba Group Holdings Ltd (+7.0% in Aug); and financials company QNB Finansbank (+24.0% in Aug)

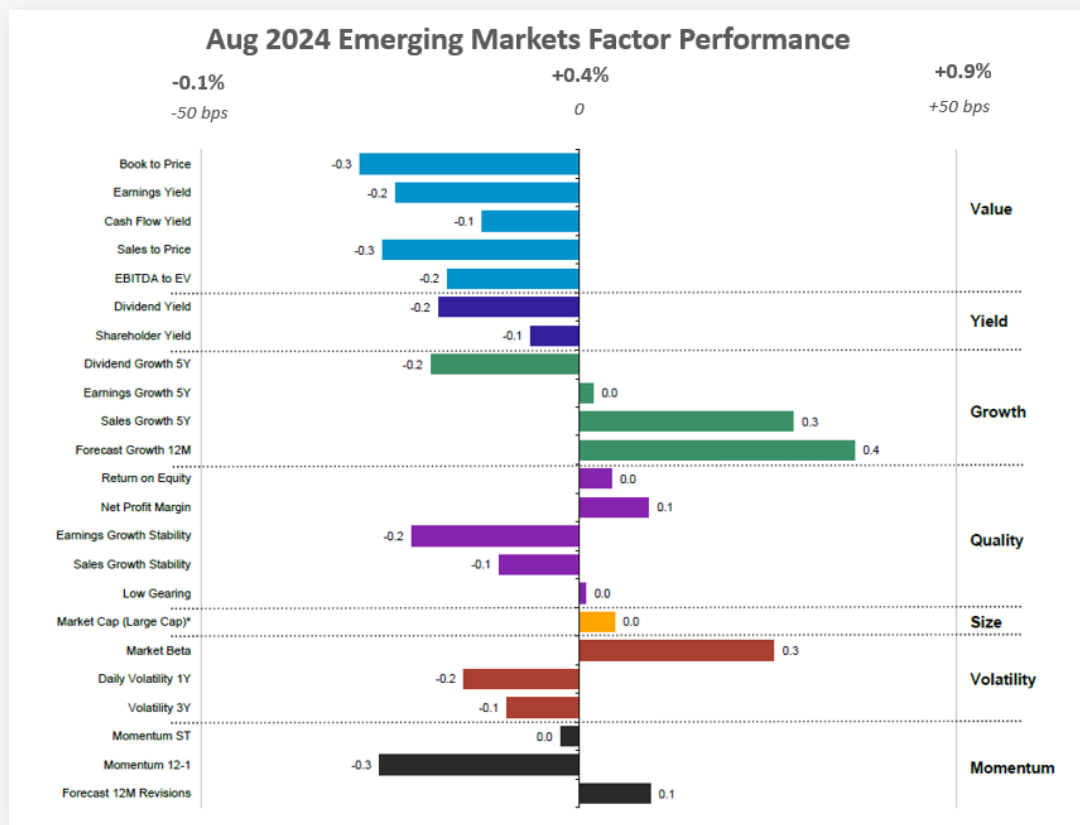


Figure 5: Aug 2024 Emerging Factor Performance (country and sector adjusted)

Source: Confluence Style Analytics

Canadian Equities

In Canada, the factor performance trend favoured Size and Momentum, with Growth and Quality factors close behind. Among Growth subfactors, all outperformed except for dividend growth 5Y, while within Quality, low gearing underperformed.

Canada's unemployment rate rose to 6.6% in August from 6.4% in July, according to Statistics Canada's labor force survey. The economy added a modest 22,000 jobs last month, falling behind the rate of population growth. The inflation rate decreased to 2.5% in July from 2.7% in June of 2024.

Stocks with a high sales growth 5Y in the region that outperformed include financial companies Royal Bank of Canada (+8% in Aug.) and Canadian Imperial Bank (+2% in Aug.); and materials company Agnico Eagle Mines Ltd (+6% in Aug.).

Key companies driving the forecast 12M revisions in August were financials company Manulife Financial Corp (+5% in Aug.), and info tech company Shopify (+24% in Aug.).

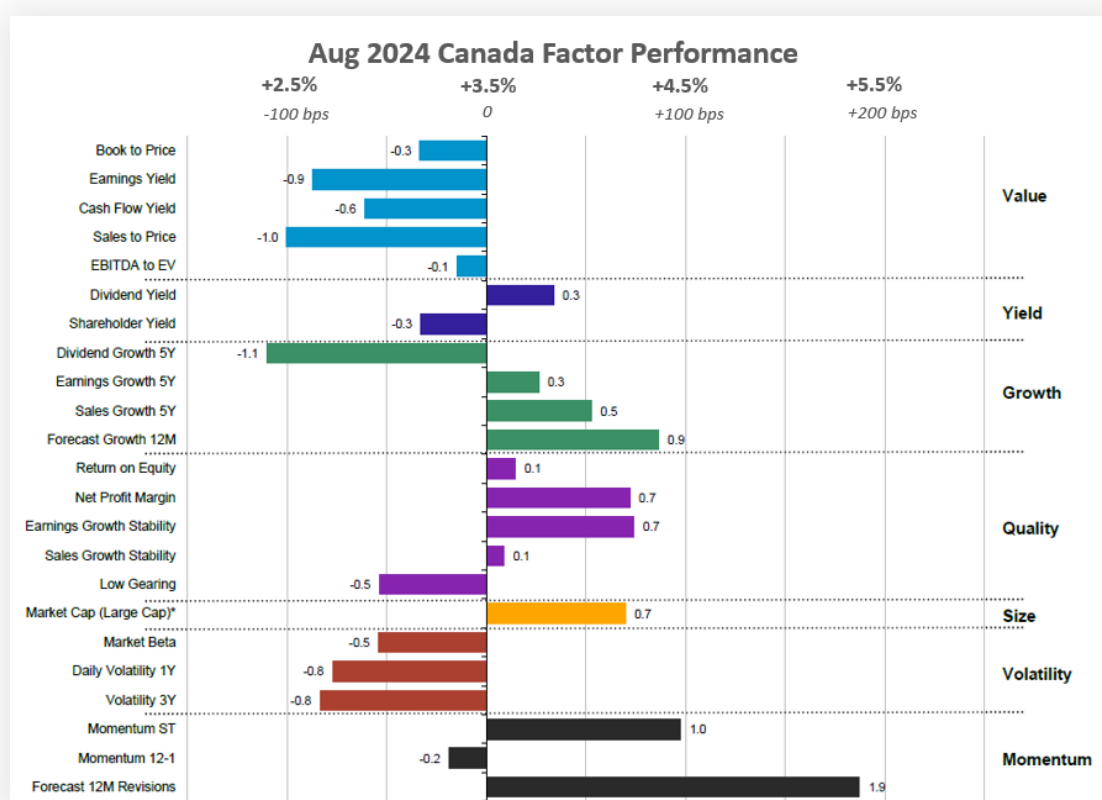


Figure 6: Aug 2024 Canada Factor Performance (sector adjusted)
Source: Confluence Style Analytics.

Appendix: How to read the charts

Each factor's performance is based on the relative performance of its top 50% of stocks by market cap, compared to the overall market. The Size factor uses the top 70% of stocks, as the only exception.

For example, for the book-to-price factor, we determine the period's performance of the basket of stocks with the highest book-to-price values, relative to the total market. Each factor is analyzed independently, market and fundamental data are adjusted to enable sector-average (within each country) relative data to be used, and the performance measurement isolates the factor's contribution to return.

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