

February 2024

Factor Performance Analysis

Momentum and Growth Outperform

March 13th, 2024

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Market Background

Equity markets have continued to do well as the MSCI ACWI returned 4.29% in February, surpassing the previous all-time high observed in 2021. The Momentum surge, most notably in the US, continues to be driven by a concentrated number of firms since the S&P 500 outperformed its equal-weight counterpart by about 1.2% in February. Over the last three months, the S&P 500 has returned 11.7% while its equal-weight counterpart trailed it by 1.9%, returning 9.8% in the same period.

The factor trend has persisted since December, but a notable shift was observed in Emerging Markets, where investors favored Growth stocks over Value for the first time in months. As shown in Figure 1 below, the US had a significantly larger factor premium in February, partly due to how concentrated the factor trend was in the region last month.

Momentum continues to drive equity markets in each region but Canada, where the surge in Value and Growth was more prominent than that of Momentum. The Momentum subfactors' performance was market neutral this month as gains in the annual momentum subfactor were offset by underperformance in short-term momentum.

Crude oil has continued its climb since bottoming at \$69/barrel on December 7th, reaching \$79.44/barrel on February 28th before crossing the \$80 threshold on March 1st.

Gold stayed steady between \$2,000-2,100/TOz after its increase earlier in Q4'23. After stabilizing at \$40,000/BTC following a 40% surge in Q4, Bitcoin returned 48% in February alone, marking a new all-time high at \$62,000/BTC and even crossing the \$72,000/BTC mark in early March.

Factor Summary

- **US Equities:** Growth, Volatility and Momentum outperformed.
- **Europe:** Momentum outperformed; Quality slightly outperformed.
- **UK:** Size and Momentum outperformed.
- **Emerging Markets:** Growth and Momentum outperformed.
- **Canada:** Value, Growth, and Quality outperformed.

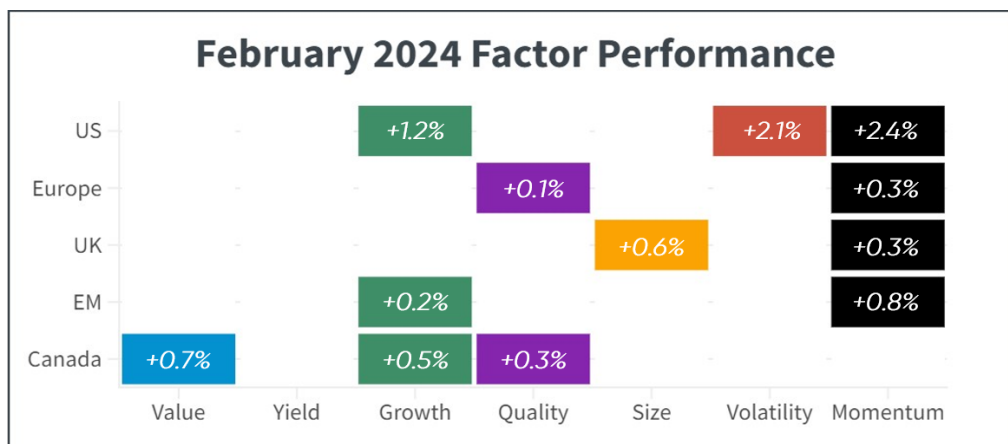


Figure 1: Regional relative factor performance (country and sector adjusted). Average of subfactors' relative returns.
Source: Investment Metrics, a Confluence company

US Equities

US equity performance in 2024 has exhibited remarkable strength, surpassing the impressive gains witnessed in early 2023. With a notable increase of 6.8% within the initial two months alone, this momentum has persisted, reaching 8.5% by early March. The driving force behind this surge lies primarily in the concentration of large tech stocks, which constitute substantial portions of market-cap weight indices. This surge has been further fueled by a renewed interest in artificial intelligence catalyzed by Nvidia’s latest earnings report.

Nvidia’s remarkable achievement of nearly quintupling their earnings over the span of 12 months underscores their adeptness at leveraging the AI trend. This success has not only solidified their position as a leader in the information technology space but has also paved the way for investors to seek out similar opportunities within other US tech stocks, such as Palantir and Super Micro Computer.

The trend today bears striking similarities to the dynamics witnessed during the Zero Interest Rate Policy era in 2020. Subfactor performance within each category has been parallel, indicating a strong trend, and the relative factor premium notably surpassed typical levels, standing at over 200bps per category in one month. As of February, we observe Volatility re-emerging with Growth as Momentum continues carrying the region to new all-time highs.

Nvidia beat earnings estimates by over 11% this month, increasing their EPS from \$0.88 to \$5.17 in a single year (+28%). Some other tech stocks with a high forecasted growth that drove the performance this month, capitalizing off Nvidia’s success with AI growth, are Palantir (+55%), Super Micro Computer (+63%), and Meta (+25%).

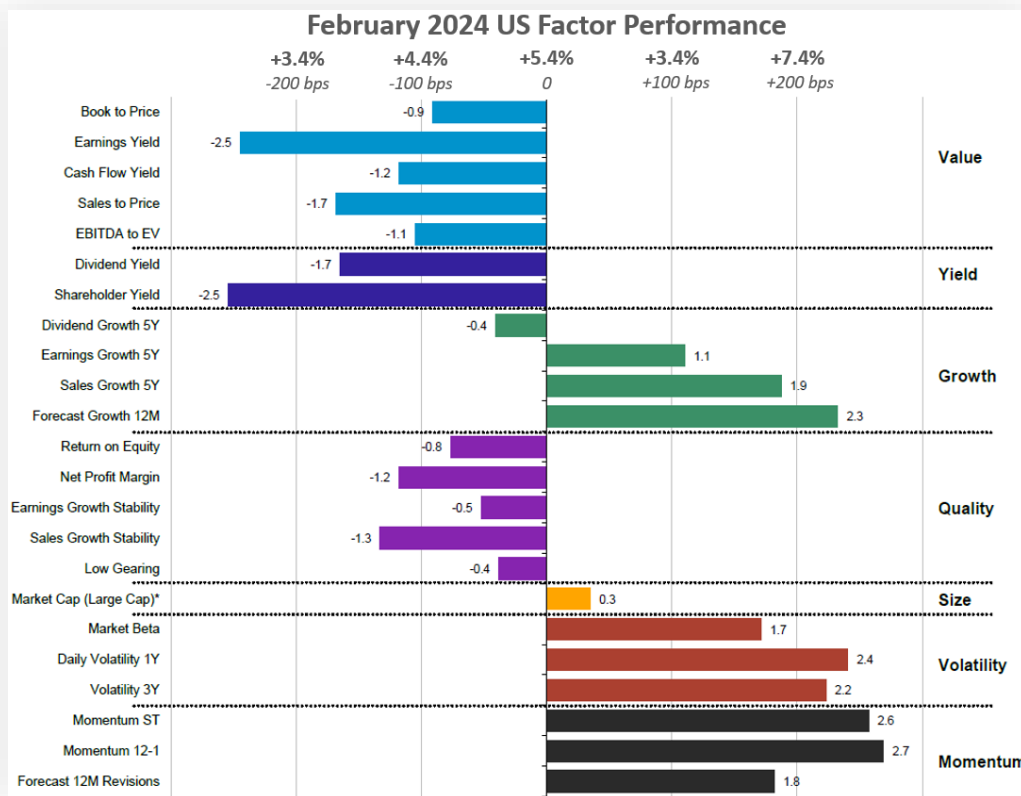


Figure 2: February 2024 US Factor Performance (sector adjusted)
 Source: Investment Metrics, a Confluence company.

European Equities

In Europe, Value stocks continued underperforming through February, extending the trend observed in January. Large Cap stocks and companies with low leverage outperformed the Canadian market as well, but Momentum remained as the dominant driver of returns in the region.

The momentum outperformance was notably lower in Europe than in the US. However, relative to the factor premiums typically observed in the region at +/- 50bps, it is a significant performance as the momentum 12-1 subfactor outperformed by nearly 100bps.

Earlier this year, Europe overtook the US in the race to lower inflation to the long-term 2% target, a trend that's persisted into February as the region observed a 2.6% YoY increase in inflation while the US has failed to decrease YoY inflation below 3%, standing at 3.2% as of February 2024.

Key drivers of the Momentum surge in Europe include Hermes International (+17% in February, +20% in the last three months); German industrials firm Rheinmetall (+30% in February, +52% in the last three months), Belgian healthcare company UCB SA (+21% in February, +55% in the last three months) and Dutch semiconductor company BE Semiconductor Industries (19% in February, +29% in the last three months).

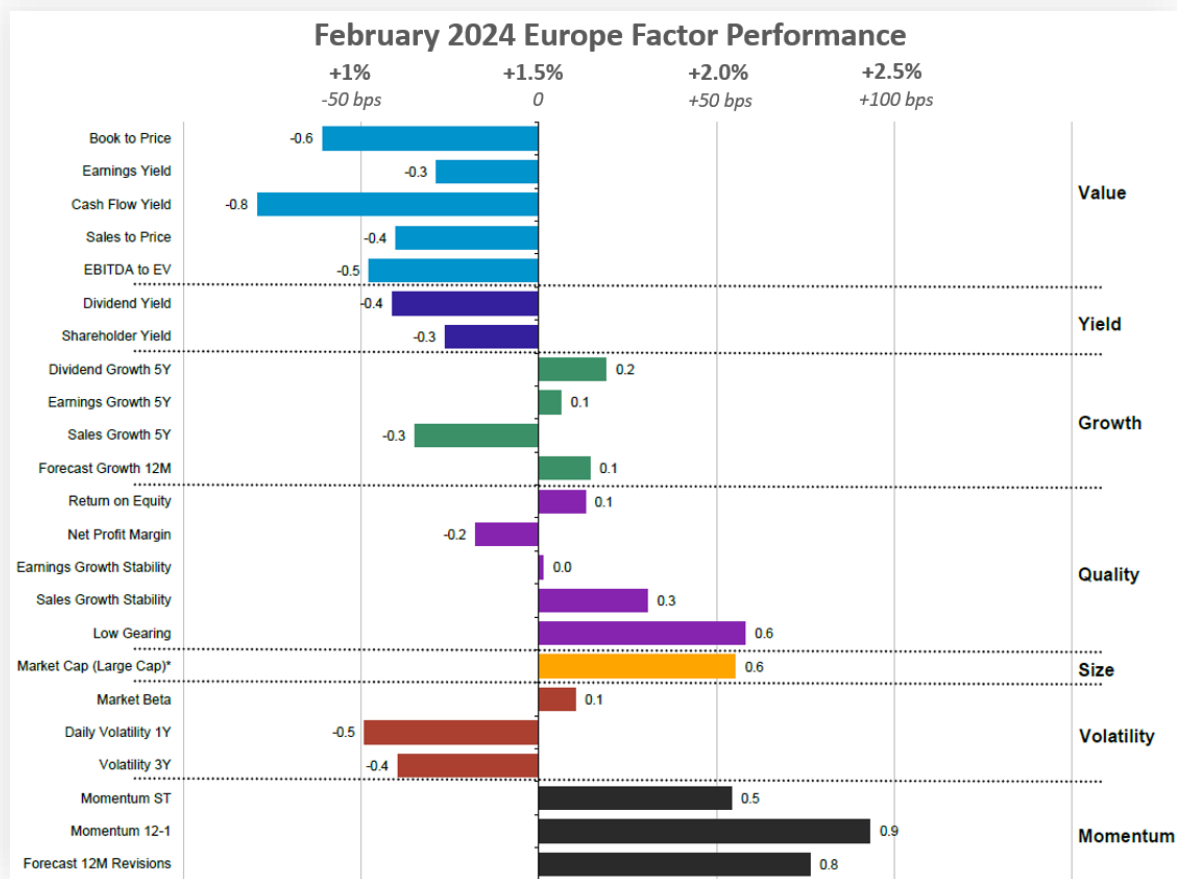


Figure 2: February 2024 Europe Factor Performance (country and sector adjusted)

Source: Investment Metrics, a Confluence company.

UK Equities

The UK observed similar factor premiums as Europe and Canada. Although stocks with a high return on equity were the top performers alongside Large Cap stocks and Momentum at 60bps, this was offset by underperformance from stocks with high earnings and sales growth stability.

From a Value and Growth perspective, equity performance in the UK wasn't as clear as it is in the US. Stocks with a high sales-to-price ratio outperformed by 30bps, but this was countered with a -80bps underperformance from stocks with an above-average cash flow yield. Likewise, in Growth, stocks with a high earnings growth and forecasted earnings growth marginally outperformed, but stocks with high sales growth and dividend growth offset this premium.

Some of the British stocks that drove the Momentum outperformance this month include automobile manufacturer Rolls Royce (+23%); Hotel chain InterContinental Hotels Group (+10%); tech company Alphawave Semi (+31%) and logistics company Wincanton PLC (+42%), the latter of which has returned over 115% in the past 3 months.

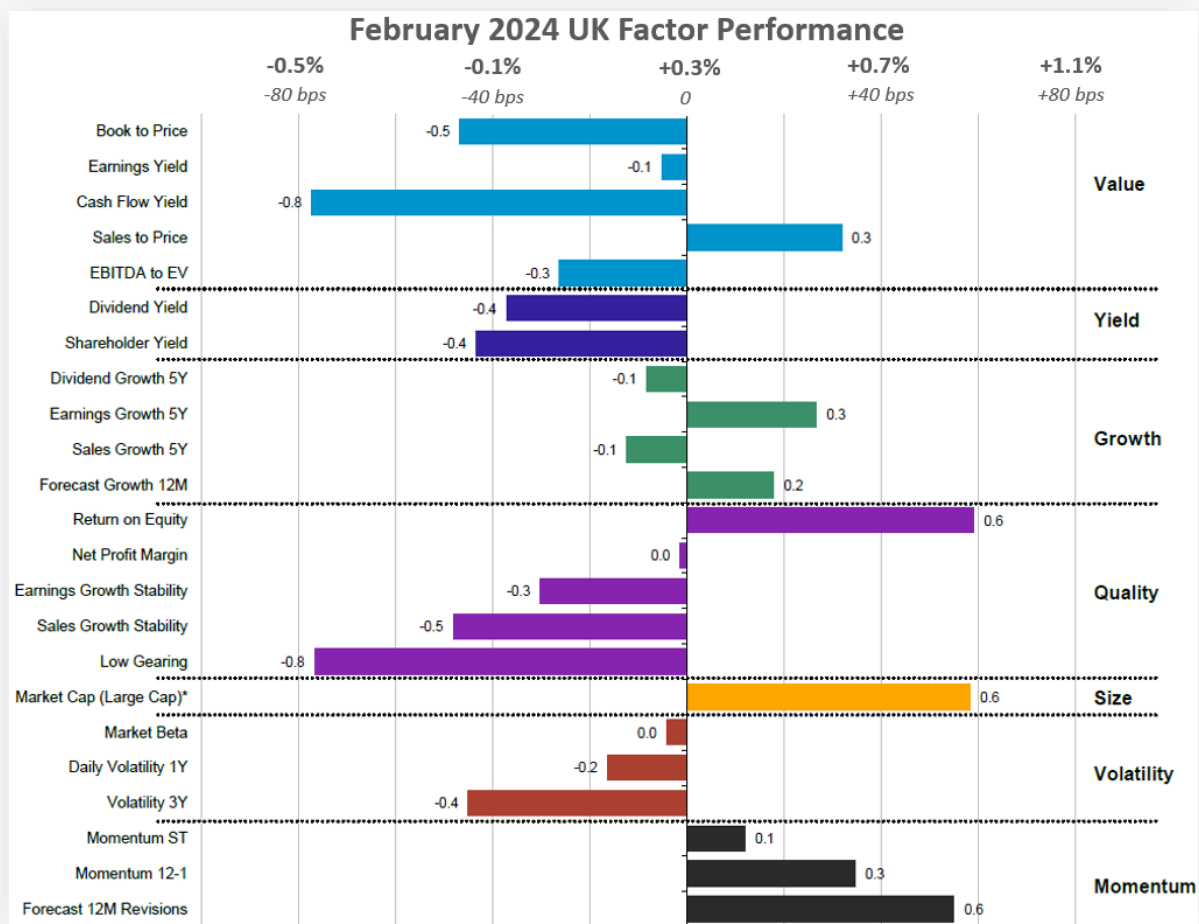


Figure 3: February 2024 UK Factor Performance (sector adjusted)

Source: Investment Metrics, a Confluence company.

Emerging Markets Equities

The factor performance trend in Emerging Markets shifted significantly away from Value and into Growth and Momentum. Although the growth outperformance isn't as strong as observed in the US, it is much different than the typical trend in the region. Likewise, Value stocks underperformed by an average of 50bps, a mirror image of their performance in December and January.

Emerging Markets equities that outperformed consistently on a monthly basis over the last year, captured by the Momentum 12-1 subfactor, include Indian Overseas Bank (+31% in February, +65% in the last three months); Indian consumer discretionary firm Trent Limited (+10% in February, +40% in the last three months); Taiwanese tech company Mediatek Inc. (+16 in February, +22% in the last three months); Taiwan Semiconductor Manufacturing Company (+8% in February, +18% in the last three months) and Indian utilities company Adani Green Energy (+13% in February, +85% in the last three months)

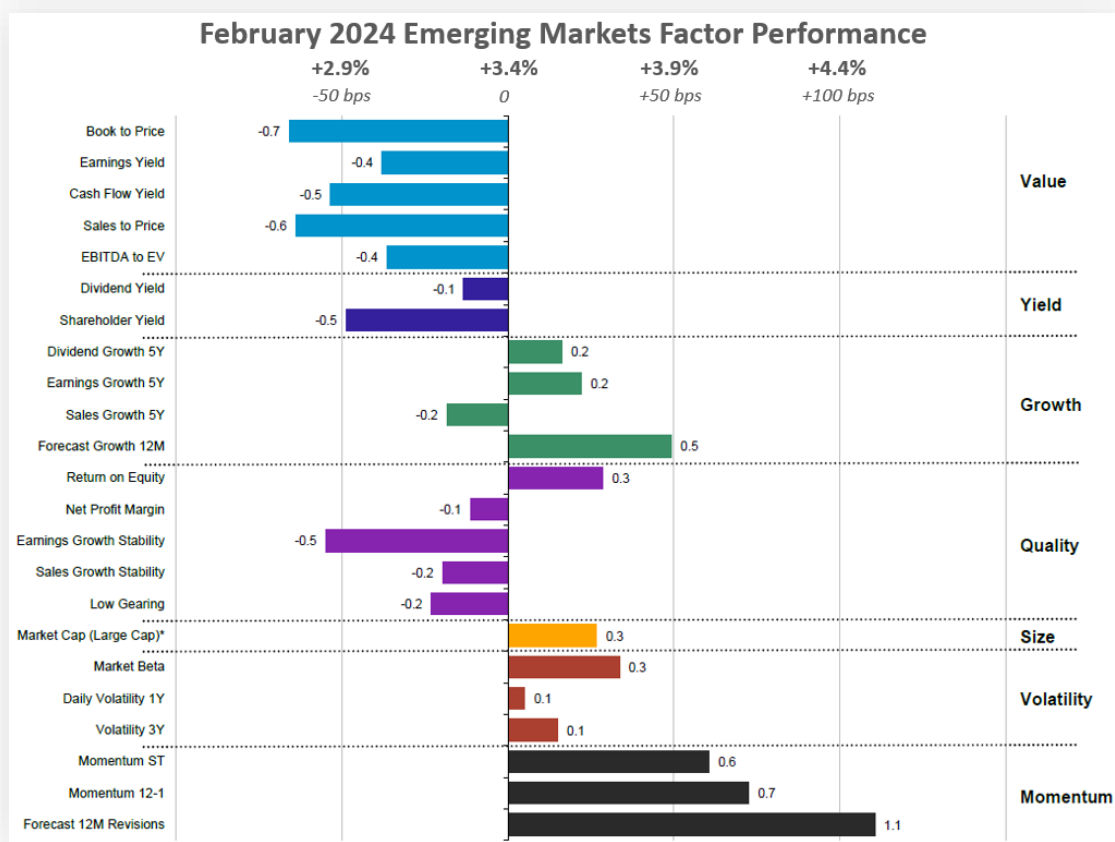


Figure 4: February 2024 Emerging Factor Performance (country and sector adjusted)

Source: Investment Metrics, a Confluence company.

Canadian Equities

Although the performance trend wasn't as well defined as in the US, the magnitude of each subfactor's relative performance nearly matched those of the US. In Value, stocks with a high earnings yield, cash flow yield, and EBITDA to EV ratio outperformed by 110-130 bps. Likewise, in Growth, companies with strong earnings growth over five years outperformed the market by 130bps. Stocks with a high return on equity significantly outperformed at 140 bps, more so than any other subfactor in Canada.

Momentum was not as strong in Canada this month, as the short-term momentum subfactor happened to be the lowest-performing subfactor at -70bps. This was offset by an 80bps outperformance in the annual momentum subfactor, leaving the factor to be market-neutral for the month.

Canadian stocks with a high return on equity that drove the Quality outperformance include companies like tech company Celestica Inc. (+22% in February, +57% in the last three months); materials company CCL Industries Inc. (+18% in February, +24% in the last three months); energy company Enerplus Corporation (+21% in February); industrials company TFI International (+11% in February, +25% in the last three months) and Canadian Imperial Bank of Commerce (+4% in February, +16% in the last three months).

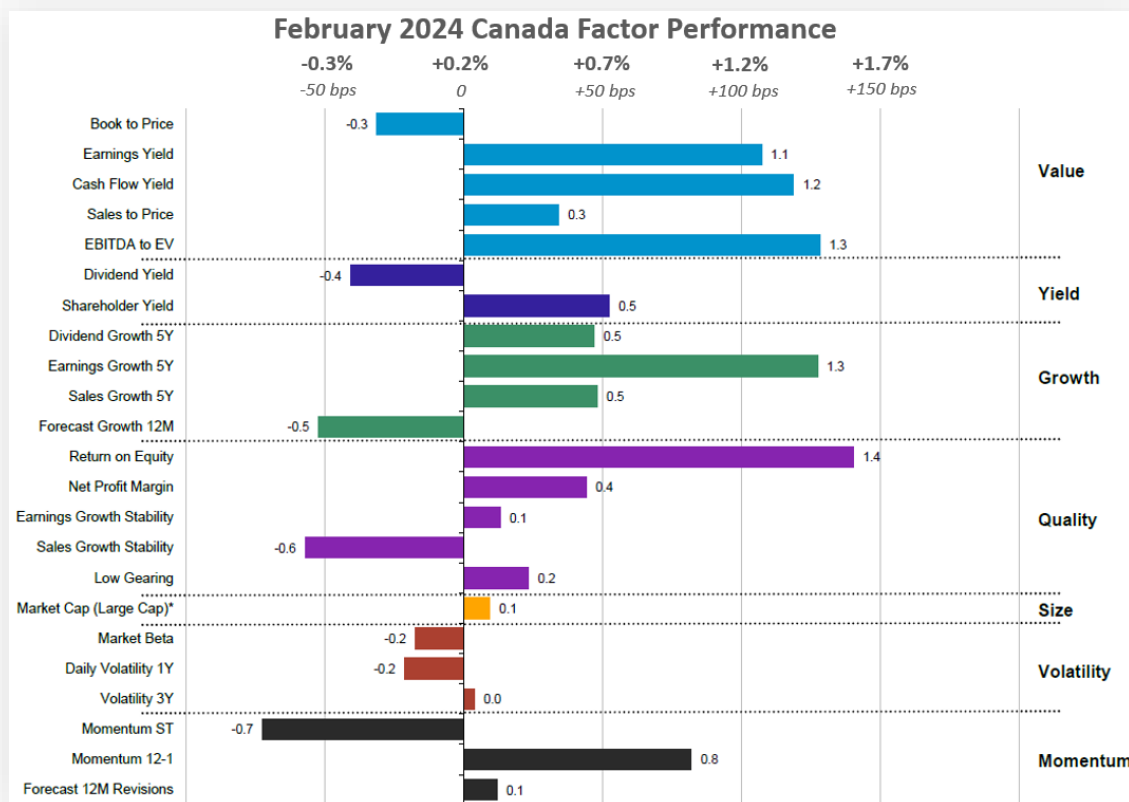


Figure 5: February 2024 Canada Factor Performance (sector adjusted)

Source: Investment Metrics, a Confluence company.

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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