

April 2024

Factor Performance Analysis

Value outperforms

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Market Background

The equity markets witnessed a reversal in factor trends through April, with the Momentum surge ultimately ceasing. As shown in Figure 1 below, the trend in Developed World equity markets has transitioned from Momentum to Value.

Large-cap stocks outperformed in the United States and Europe. With the exception of Emerging Markets, stocks that previously outperformed across global equities underperformed their respective markets.

Following the sharp increase in crude oil prices throughout the first quarter of 2024, April saw a slight decrease from \$83.17/barrel in March to \$81.93/barrel. Gold prices saw a notable increase in April, rising from 2,214.35/ TOz in March to 2,333.55/TOz by April 1st.

Factor Summary

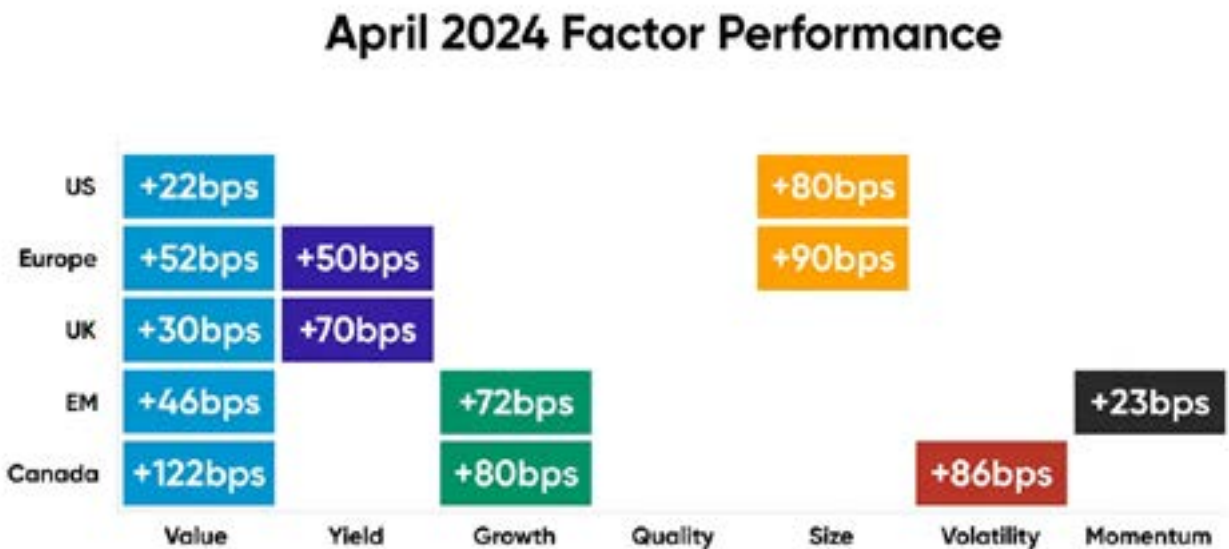


Figure 1: Regional relative factor performance (country and sector adjusted). Average of subfactors' relative returns. Source: Investment Metrics, a Confluence company

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

US Equities

As higher-than-expected interest rates and faster-than-expected inflation dimmed hopes for interest rate cuts in the near term, the U.S. witnessed a dampening in equity returns through April. Following the robust Momentum surge in the U.S. equity markets in Q1 2024, April saw that trend crash, leading to an average underperformance of -23 basis points. The month-on-month returns saw a broadening trend of U.S. equities market from dominance of the Magnificent (Mag7) companies.

The performance was significantly driven by an outperformance of large cap stocks, while stocks with high Volatility saw a reversal from last month averaging an underperformance of 100bps. Except for high return on equity (ROE) companies, which returned to outperforming by +70 basis points, high-quality companies continued to contribute to the underperformance of the U.S. markets.

Although the US stock market was driven by Large Value companies in April, the Mag7 group still exerted significant influence, contributing to 51% of the index return. Notably, NVIDIA (up 74.5% year-to-date) alone represented 41% of the S&P 500's year-to-date gain, plus stocks that underperformed in US ROE.

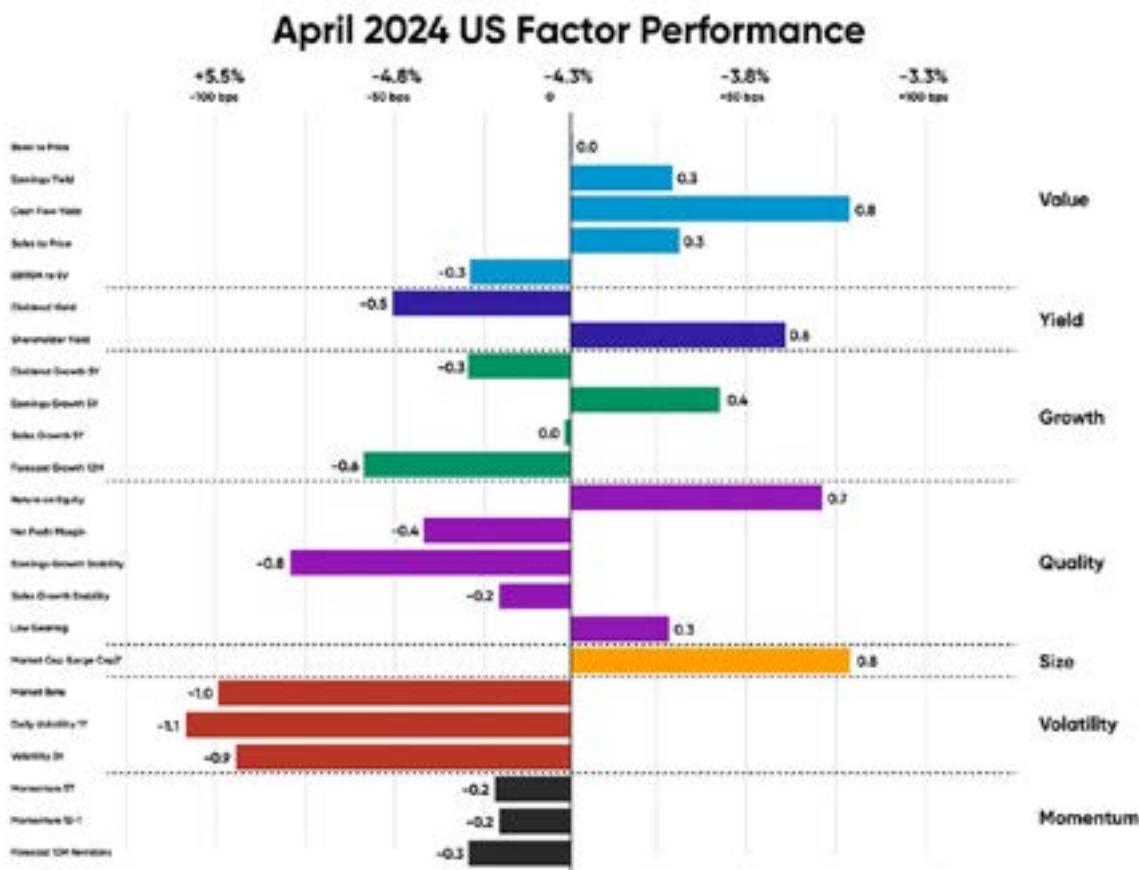


Figure 2: April 2024 US Factor Performance (sector adjusted)

Source: Investment Metrics, a Confluence company

European Equities

In April, Value stocks in Europe maintained their outperformance, continuing the trend noted in March. Yield also played a significant role in bolstering the market's performance, resulting in an average outperformance of 50bps. Like the U.S., European equities experienced a decline in Momentum performance which indicated that the previous winners were no longer maintaining their streak as short-term momentum underperformed the market by 60bps. Growth stocks observed a reversal in trend, with all Growth sub-factors, except for dividend growth over 5Y, underperforming the market.

Eurozone inflation remained stable at 2.4% in April, aligning with the estimates. Core inflation, excluding energy, food, alcohol, and tobacco, stood at 2.7%.

Key drivers of outperformance in Europe included a Belgium healthcare company UCB SA and Co (+8.61% in April); Spanish bank Banco Santander (+24.33% in April); and German Industrials company Hapag-Lloyd AG (+22.25% in April).

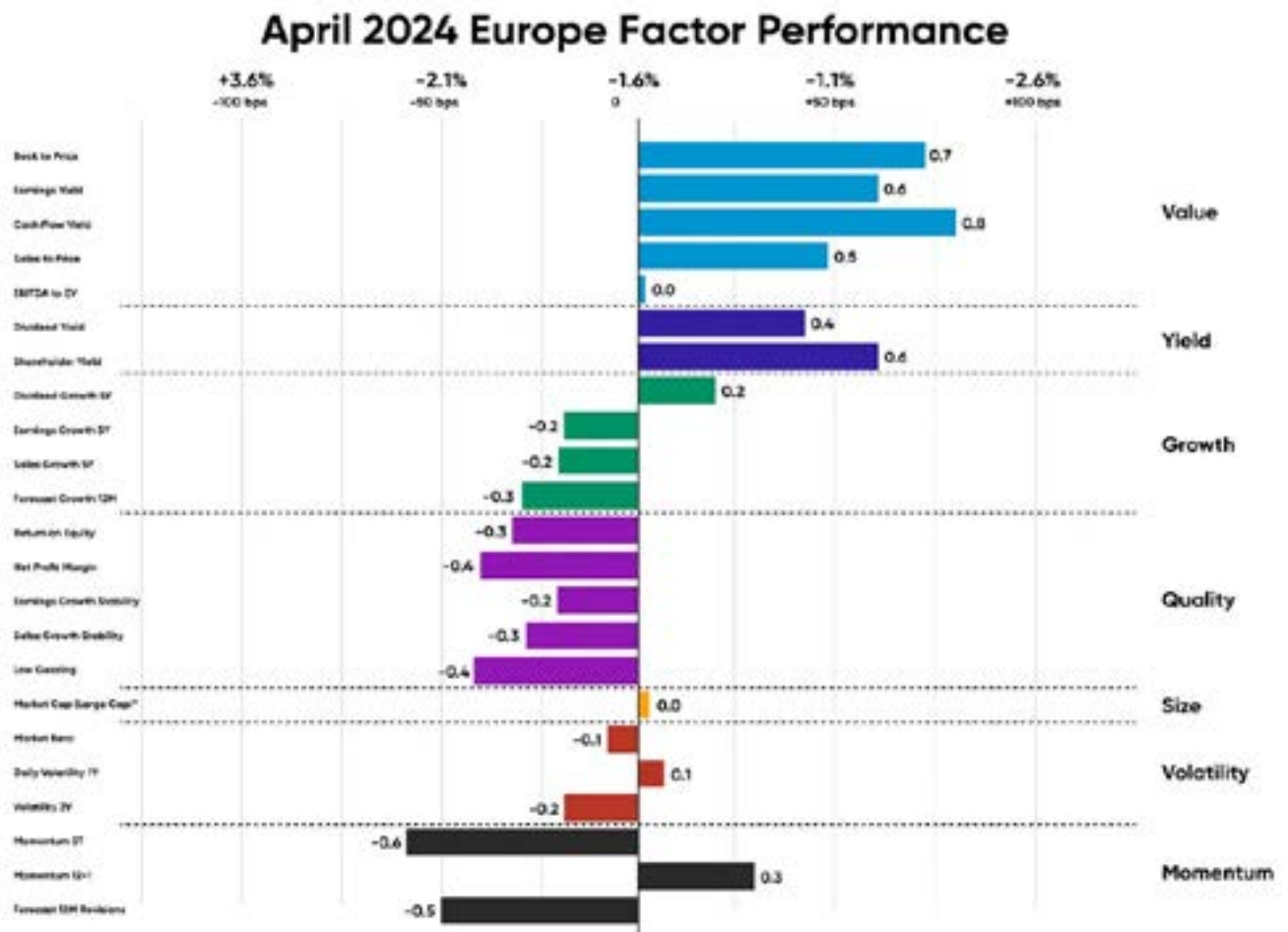


Figure 3: April 2024 Europe Factor Performance (country and sector adjusted)

Source: Investment Metrics, a Confluence company

UK Equities

The UK market observed a preference for Value stocks, coupled with a downward trend in Quality and Momentum. The positive outperformance was partly attributed to a beneficial impact from stocks within the Healthcare sector, such as AstraZeneca (returning +11.97% in April), along with a resilient performance from Consumer Staples stocks.

From a Yield perspective, equity performance in the UK reflected mixed sentiment. Stocks with a high dividend yield outperformed by 70bps, while stocks with a significant shareholder's yield countered by a -60bps underperformance. All Momentum subfactors suffered a significant setback as their constituents experienced an average underperformance of -30bps.

Some of the British financial companies that drove Value through April included financial company HSBC Group (11.39% in April), Natwest Group (13.31% in April), and Barclay's PLC (9.67% in April).

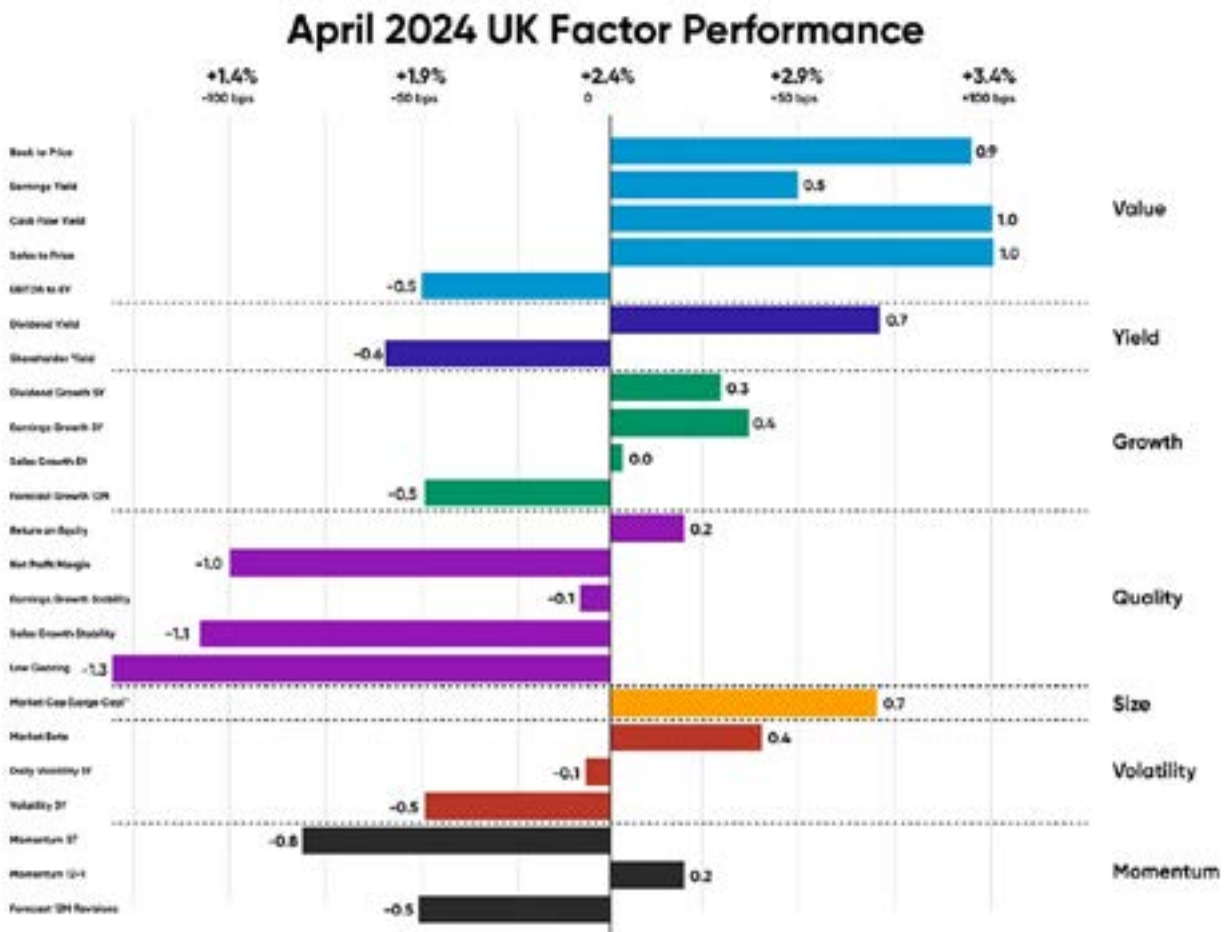


Figure 4: April 2024 UK Factor Performance (sector adjusted)

Source: Investment Metrics, a Confluence company

Emerging Market Equities

The observed shift in Emerging Markets reverted to favoring Value, in contrast to last month's Value stock underperformance. With an average outperformance of 16bps, the trajectory for Quality subfactors also diverged from the previous month, indicating varied sentiments. This outperformance was significantly driven by the positive outperformance from ROE, while others, particularly "earnings growth stability," "sales growth stability," and "low gearing," exhibited negative returns.

Stocks with high expected growth, as captured by the "Forecasted 12M Growth" Growth sub-factor, underperformed by approximately 50bps and contributed to the decline in performance for Emerging Markets in April.

The ROE contribution to Emerging Markets equities' outperformance through April was significantly led by India and strongly influenced by Indian financial company Life Insurance Corp of India (+6.74% in April); Coal India Limited (+4.61% in April); Indian materials company Chandra Asri Pacific PT (+26.80% in April) and China Comm Service company Tencent Ltd (+14.36% in April).

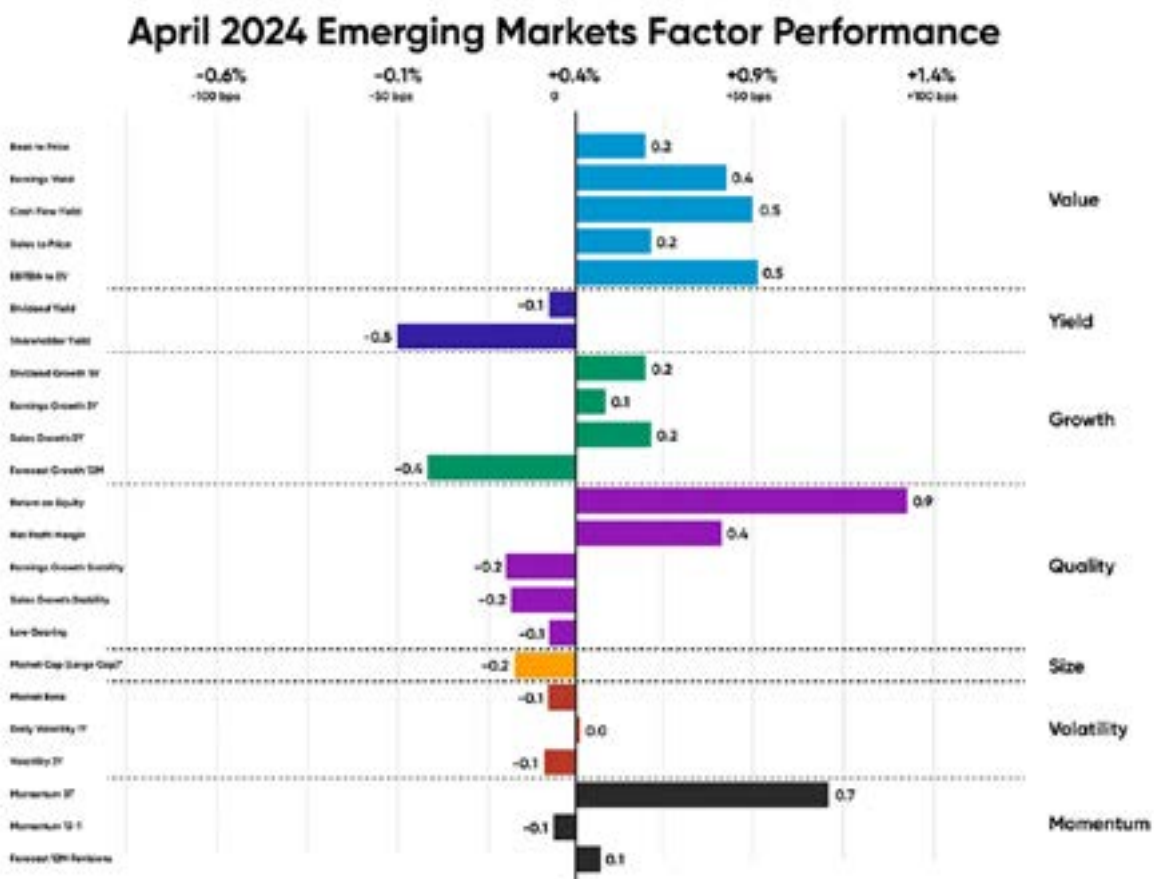


Figure 5: April 2024 Emerging Factor Performance (country and sector adjusted)

Source: Investment Metrics, a Confluence company

Canadian Equities

In Canada, the factor performance trend was spearheaded by Growth. Companies with strong dividend growth over five years outperformed the market by 110bps, closely followed by stocks with a high earnings growth over 5Y, outperforming by 70bps.

A varied pattern emerged among Quality stocks this month, with high return on equity (ROE), stable earnings growth, and low gearing contributing to outperformance. Net profit margin and sales growth stability had a mitigating effect on these stocks. Similar to the US, UK, and Europe, Momentum experienced a significant decline in performance, with short-term momentum plunging to a -60bps performance compared to the market.

Canadian stocks with a high dividend growth over 5Y that drove the Growth outperformance included companies like **Canadian industrial firm** Agnico Eagle Mines (+6.2% in April), Dollarama Inc (+9.7% in April), Teck Resources Ltd (+7.6% in April).

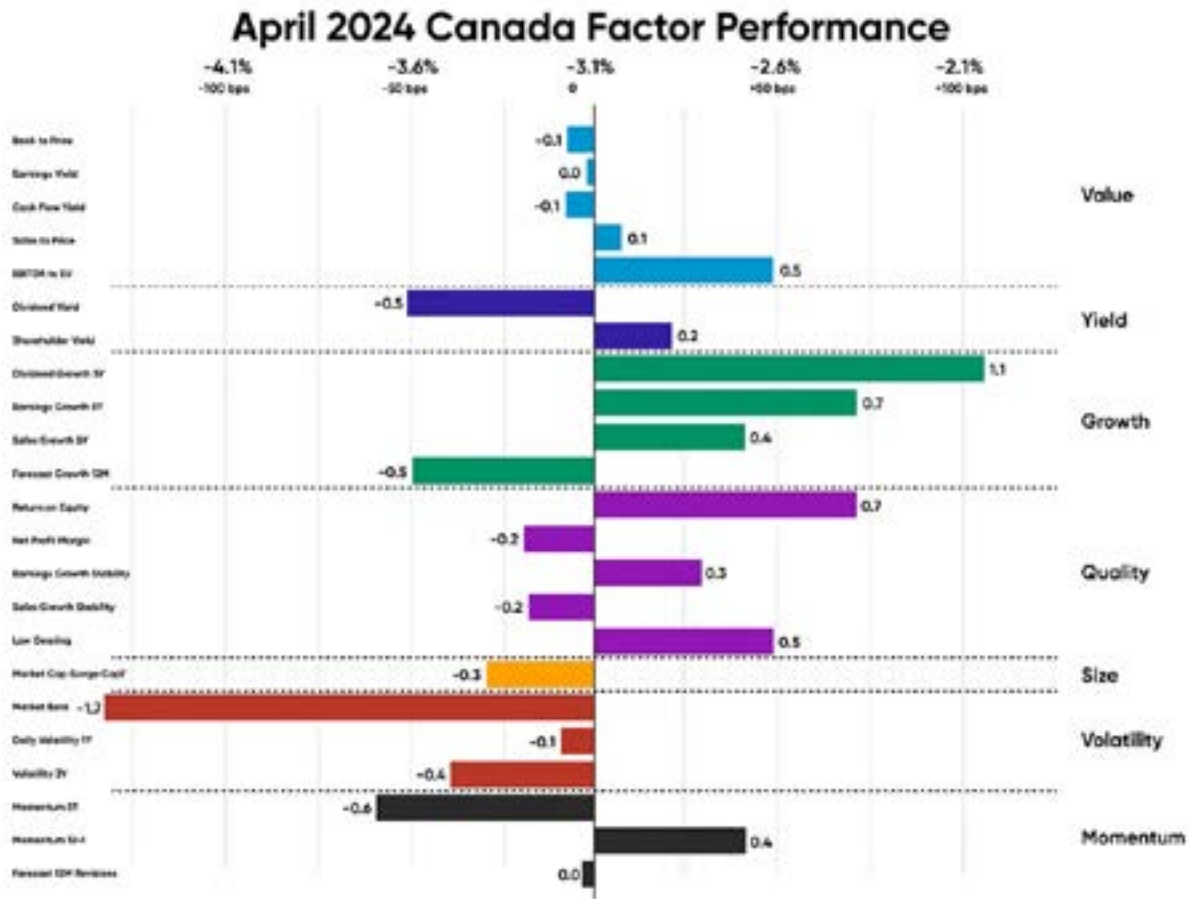


Figure 6: April 2024 Canada Factor Performance (sector adjusted)

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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