

Confluence Style Analytics

Q3 2024

Factor Performance Analysis

Volatility Drives Market Performance

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Market Background

Global equities posted gains in Q3 2024, despite experiencing periods of significant volatility throughout the quarter. Volatility outperformed in all regions during September, while the quarterly outperformance was distributed across various factors. Inflation continues to ease across global economies, which are benefitting from the recent declines that have significantly increased real incomes. Emerging markets and Canada delivered notable performance results in the third quarter of this year.

Crude oil prices fell to \$68 per barrel by the end of September before recently rising to \$77 per barrel. Prices dropped to as low as \$66 per barrel in early In September.

Bitcoin mining revenues fell to \$2.5 billion in Q3 2024, down from \$3.7 billion, despite experiencing a downturn due to the selloffs. This asset class continues to attract investors. Finally, gold closed the quarter out at \$2,630/TOz, maintaining its upward trend.

Factor Summary



Figures 1 & 2: Regional relative factor performance (country and sector adjusted) for Sept '24 and Q3 '24. The arithmetic average of the subfactor's relative market return for each factor category and region
 Source: Confluence Style Analytics.

US Equities

At the start of September, the US market tumbled as technology stocks faltered and economic data reignited concerns about the economy's health. However, it quickly rebounded as investor confidence grew around a soft landing for the economy and expectations of lower interest rates, ending the month with a 2% return, and the quarter overall finished with a 5.5% gain. While Volatility subfactors had the most significant influence on the region's monthly performance, outperforming the market by 60bps, the strong quarterly performance was mainly driven by the outperformance of Value and Yield, which exceeded the market by 84bps and 140bps, respectively. Quality delivered mixed performance this quarter, highlighted by a strong outperformance of 150bps in return on equity compared to the market.

Although the annual inflation rate in the US eased for the fifth consecutive month, falling to 2.5% in August 2024 from 2.9% in July, core consumer prices rose to 319.77 points in August, up from 318.87 points in July. The employment rate in the United States rose to 60.2% in September 2024, up from 60% in August.

Volatility, exemplified by the market beta subfactor, led the US market in September, driving nearly 80bps of relative performance, which can be largely attributed to companies like consumer discretionary company Tesla Inc (22.0% in Sept); infotech company Advanced Micro Devices (10.5% in Sept). Stocks with EBITDA to EV, which contributed to the performance of the US in Q3, include communication services company Meta Platforms (14.0% in Q3) and info technology company Oracle Corp (21.0% in Q3).

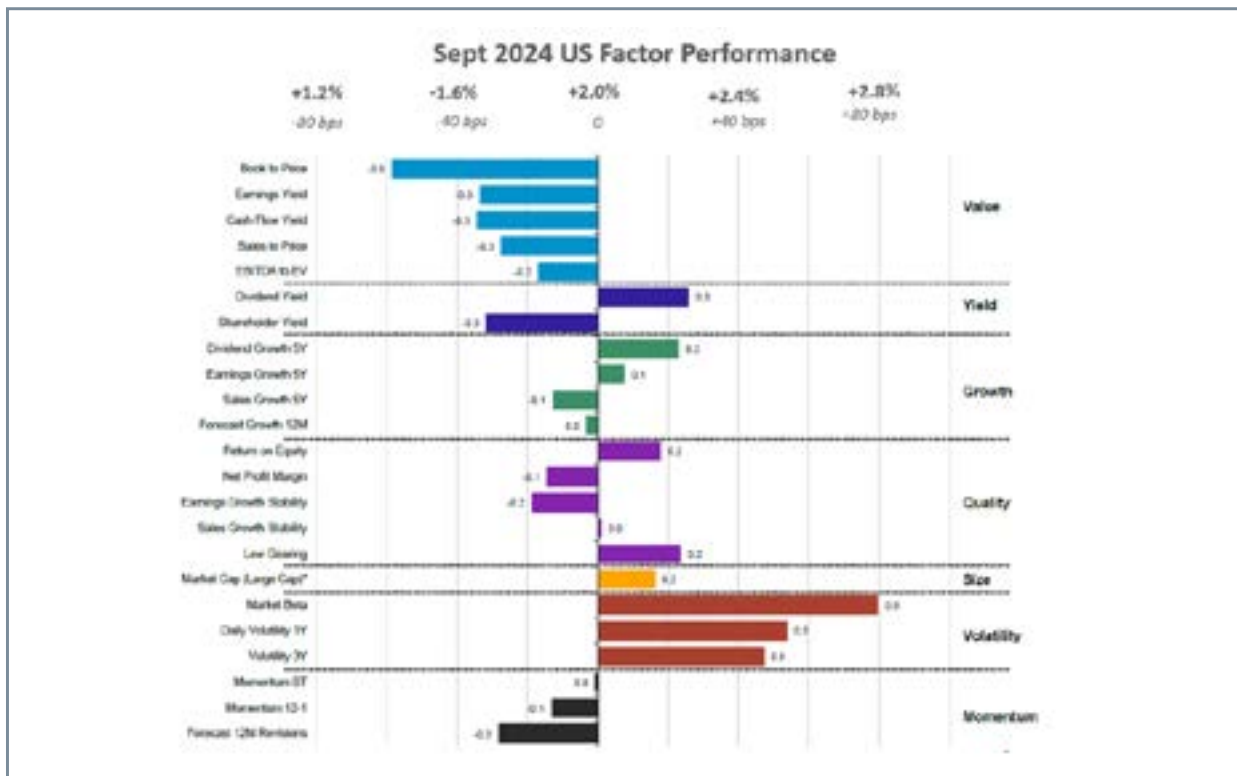


Figure 3: Sept 2024 US Factor Performance (sector adjusted)
 Source: Confluence Style Analytics

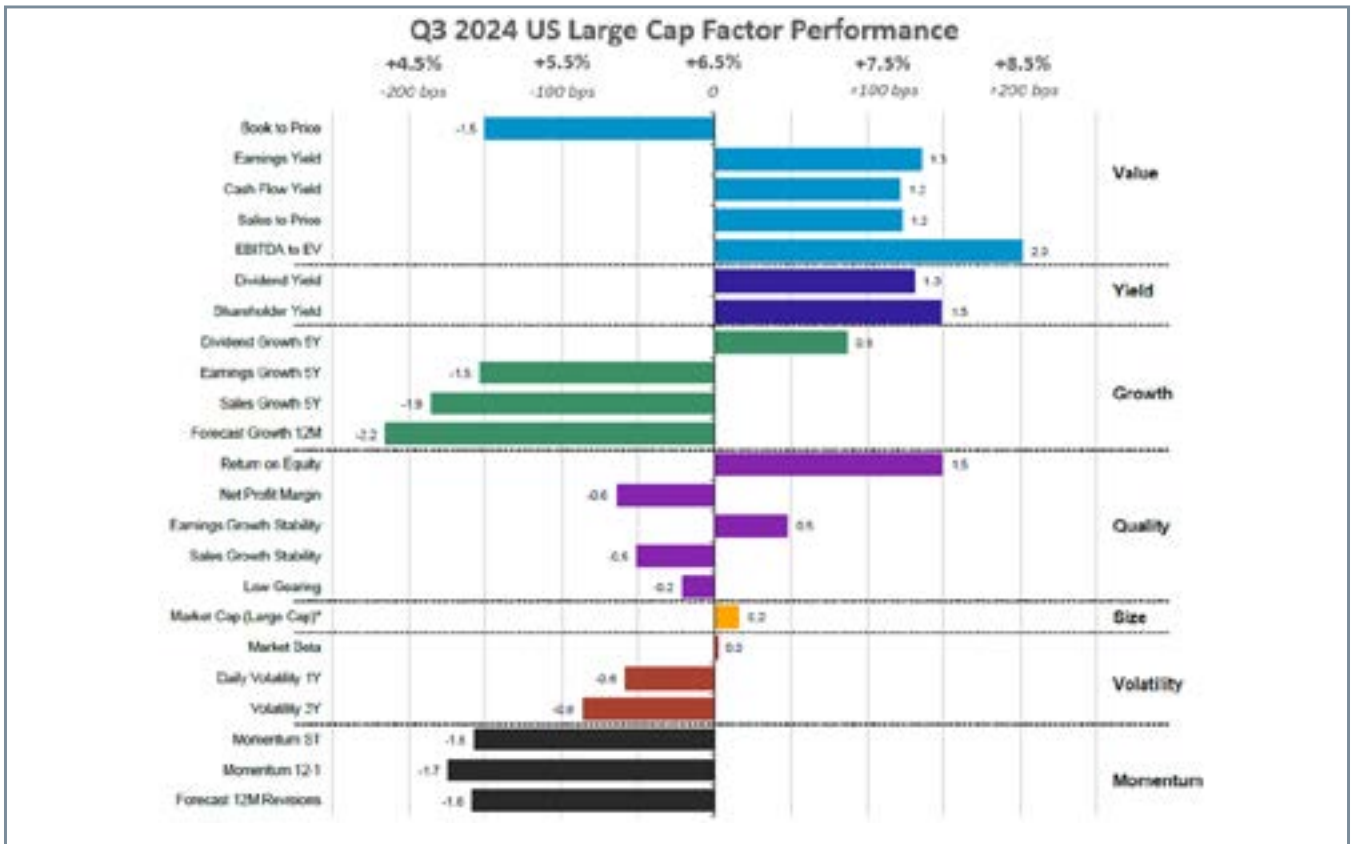


Figure 4: Q3 2024 US Factor Performance (sector adjusted)
 Source: Confluence Style Analytics

European Equities

The European stock market displayed an uncertain factor trend this month, with Growth and Quality sending mixed signals. Notably, Value and Large-cap stocks consistently underperformed the market, while Volatility dominated gains in the month of September. While Quality overall outperformed the market in September by an average of 10 basis points, it lagged in terms of return on equity and earnings growth stability. Quarterly performance in European Equity was primarily driven by Yield and Volatility factors, with notable outperformance of 10bps and 15bps, respectively. Momentum delivered mixed results, with short-term momentum outperforming by 10 basis points and 12-1 momentum by 20 basis points, while the 12-month forecast trailed the market by 20 basis points.

The annual inflation rate in the Eurozone dropped to 1.8% in September 2024, down from 2.2% in August. Consumer Prices in the Euro Area increased to 120.19 points in September from 120.09 points in August 2024. The unemployment rate in the Euro Area remained unchanged at 6.4% in August.

Notable outperformers with stable market beta include consumer discretionary company Hermes International (+3.0% in Sept), communication services company Deutsche Telekom (+3.5% in Sept), and industrials company Schneider Electric (+4.0% in Sept). Companies with shareholder yield subfactor that contributed to the outperformance of Euro Zone include healthcare company Sanofi (19.0% in Q3) and communication services company Bertelsmann Se and Co (9.0% in Q3).

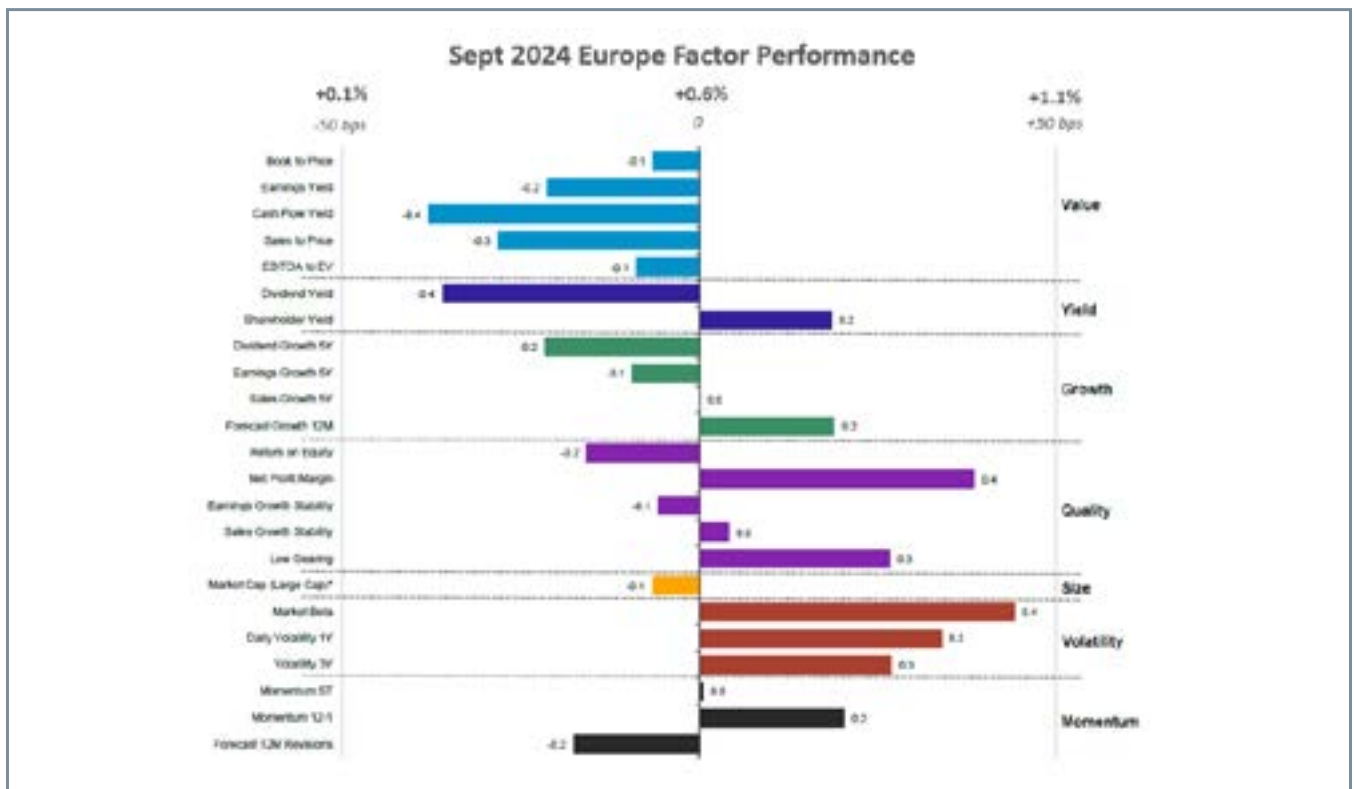


Figure 5: Sept 2024 Europe Factor Performance (country/sector adjusted)

Source: Confluence Style Analytics

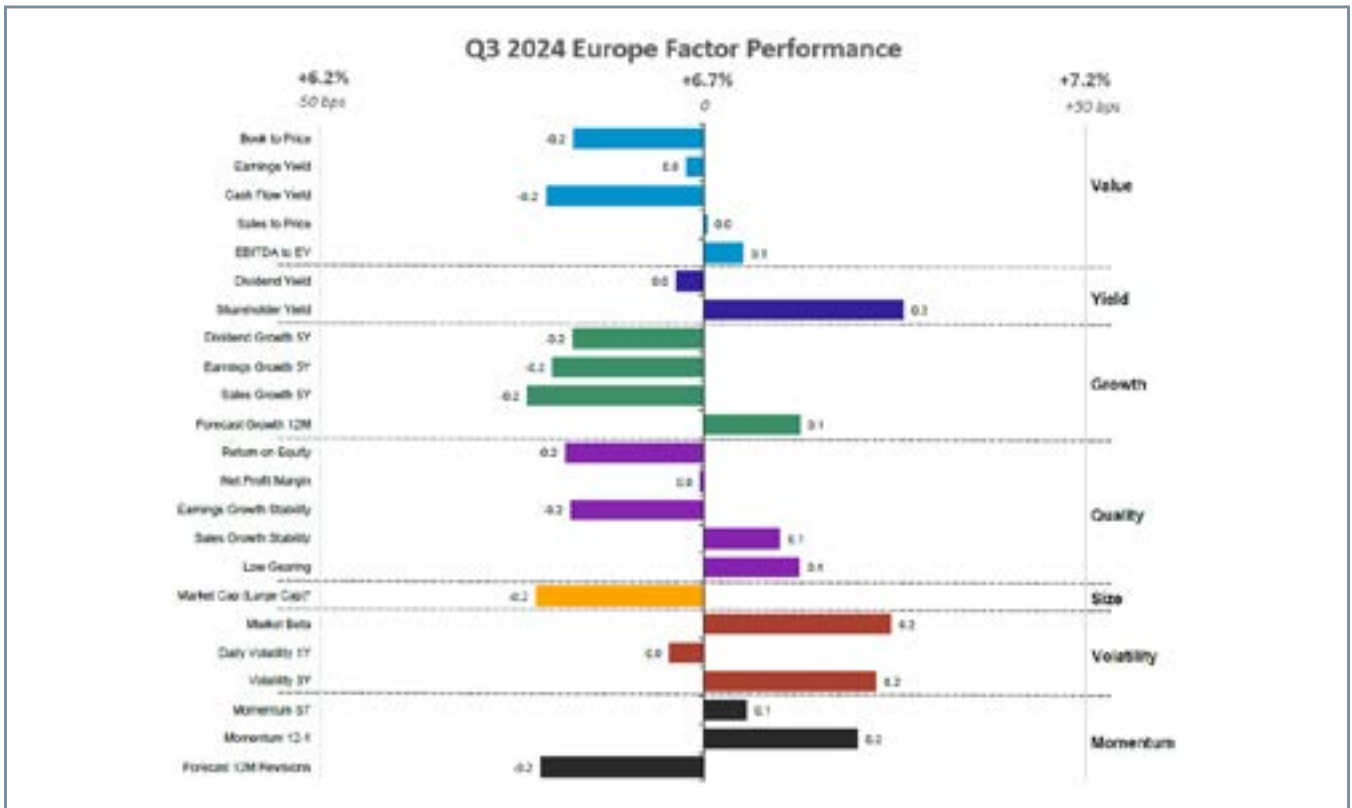


Figure 6: Q3 2024 Europe Factor Performance (sector adjusted)
 Source: Confluence Style Analytics

UK Equities

Although UK equities outperformed their US and European counterparts in the second quarter of 2024, they underperformed in comparison during the third quarter with a quarterly performance of 2.2%. UK saw an outperformance of 78bps in Value and 106bps in Quality in Q3 2024, while Yield and Growth were the laggards. The underperformance delivered by the UK in the month of September was predominantly driven by factors such as Momentum, Yield, and Value, which lagged behind the market despite Quality and Volatility outperforming by 58bps and 33bps, respectively.

The annual inflation rate in the UK remained steady at 2.2% in August 2024, unchanged from July, while the Consumer Price Index increased to 134.2 points in August from 133.80 points in July. This quarter also saw a rise in the employment rate from June, with the latest figure reaching 74.8% recorded in July.

Quality equities, driven by strong net profit margins, contributed to Quality's outperformance in the region. These include materials company Rio Tinto Plc (+14% in September) and consumer staples company Diageo plc (+7.0% in September). The companies with notable EBITDA to EV outperformance contributing to the quarterly returns include Rolls Royce Holdings plc (22.0% in Q3) and consumer staples company Tesco plc (24.0% in Q3).

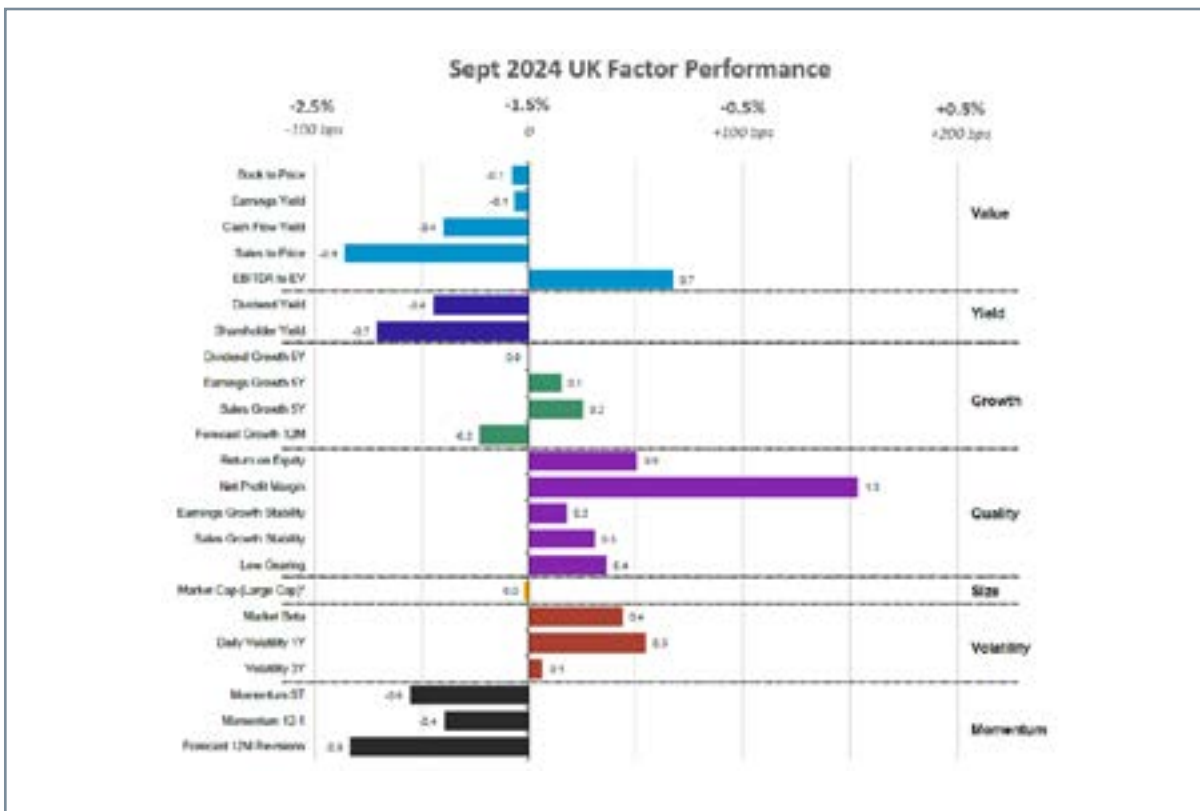


Figure 7: Sept 2024 UK Factor Performance (sector adjusted)

Source: Confluence Style Analytics

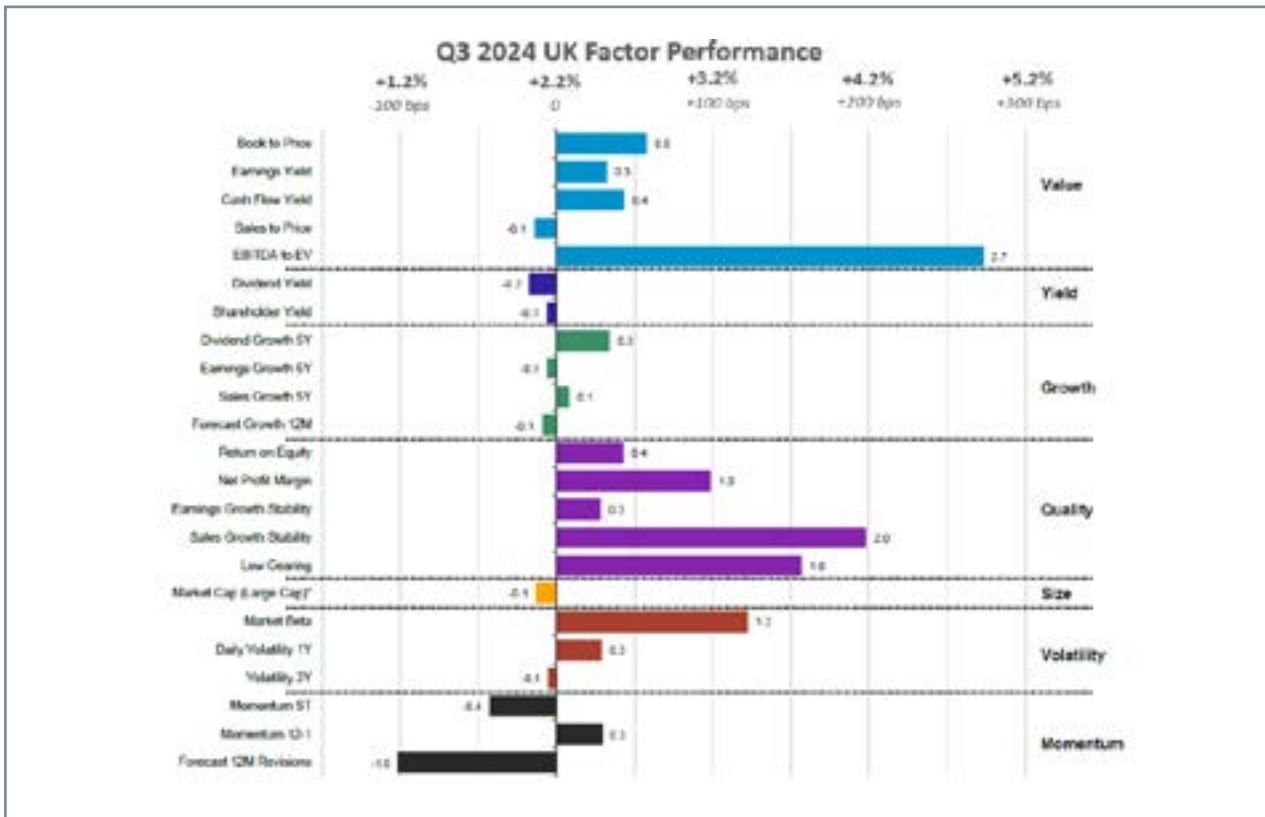


Figure 8: Q3 2024 UK Factor Performance (sector adjusted)

Source: Confluence Style Analytics

Emerging Markets Equities

In September, the factor trend in Emerging Markets favored Growth and Volatility, with market performance surpassing that of its developed counterparts - the US, UK, and Europe. While nearly all Growth subfactors outperformed the market, leading to an average outperformance of 37bps, dividend growth 5Y was an exception, underperforming the market by 30bps. Equities with high volatility achieved the most robust performance in this region, resulting in an average total outperformance of 83 basis points. The quarterly performance of Emerging Markets was driven primarily by Growth and Volatility, while Momentum was a laggard with momentum 12-1, underperforming the market by 140bps. The Quality subfactors exhibited mixed performance in Q3 2024, with an average performance of 4bps.

The annual inflation rate in India rose to 3.65% in August 2024, up from a revised 3.6% in July, and the Consumer Price Index CPI in India remained unchanged at 193 points in August. China's annual inflation rate increased to 0.6% in August 2024, up from 0.5% in July, along with an increase in the unemployment rate to 5.3% compared to 5.2% in July. The annual inflation rate of Brazil slightly eased to 4.24% in August from 4.5% in July, accompanied by a lower unemployment rate of 6.6%.

Emerging Markets equities that outperformed in the month of September, captured by the forecast growth 12M subfactor, include a Chinese communication services company Tencent Holdings Ltd (+16.88% in September); Chinese Consumer Discretionary company Meituan (+45.0% in Sept). Companies with strong market beta performance include Consumer Discretionary company Alibaba Group Holdings Ltd (+34.0% in Sept) and Chinese financials company East Money Information Co. Ltd. (+89.0% in Sept). Notable outperformers with high Sales growth 5Y include Chinese Industrials company Contemporary Amperex Tech (+45% in Q3).

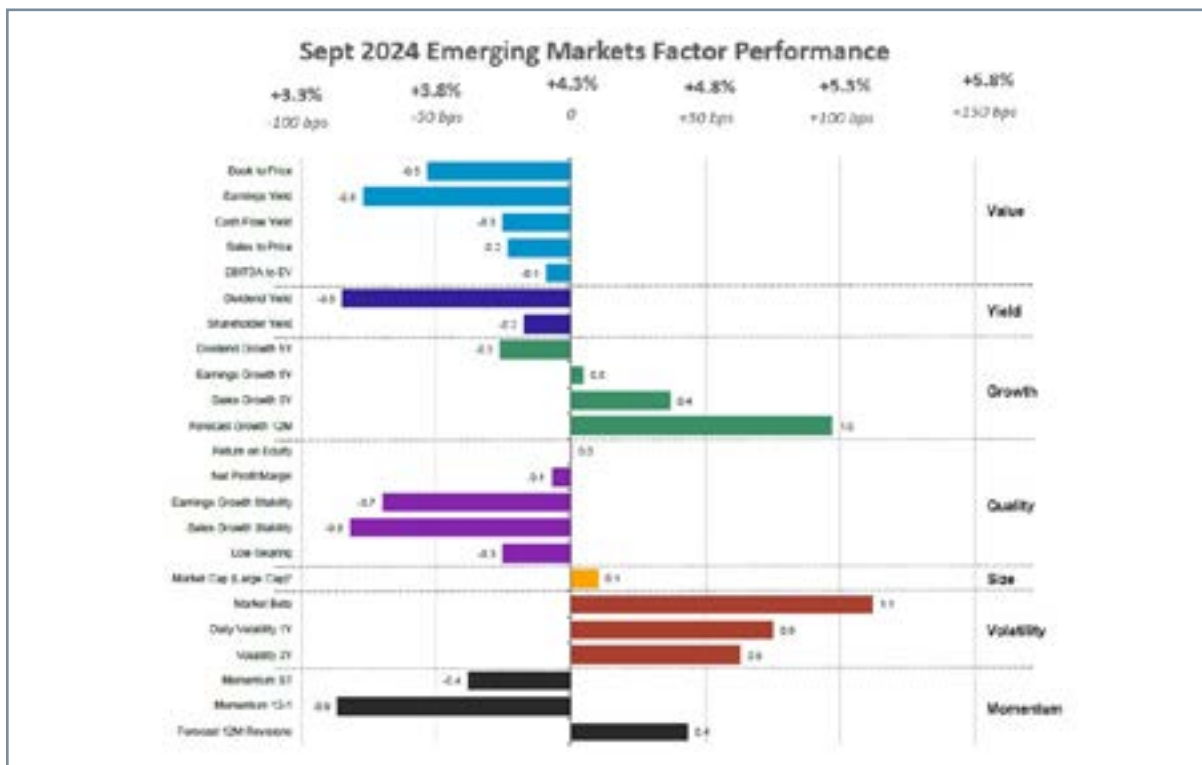


Figure 9: Sept 2024 Emerging Markets Factor Performance (sector adjusted)

Source: Confluence Style Analytics

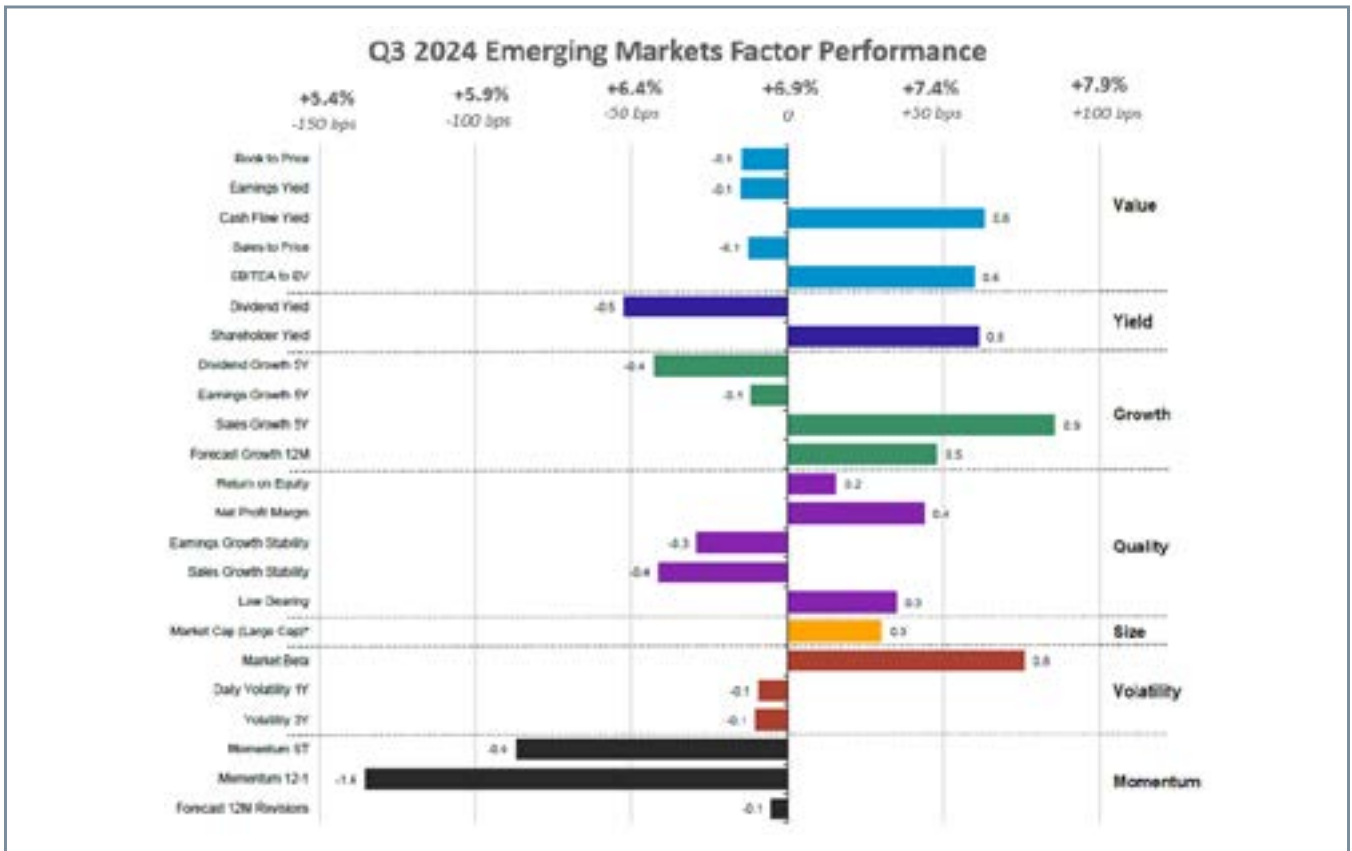


Figure 10: Q3 2024 Emerging Markets Factor Performance (sector adjusted)

Source: Confluence Style Analytics

Canadian Equities

In September, Canadian investors preferred Volatility with strong market beta, outperforming by 100bps. This month, Growth, Quality, and Momentum factors were the underperformers, negatively impacting the region's performance, with return on equity underperforming the market by 150 basis points. The strong quarterly performance of Canadian equities was primarily driven by Momentum, which outperformed the market by 103bps, closely followed by Quality, which outperformed by 22bps. Shareholders yield lagged the market by 220bps in this quarter.

The annual inflation rate in Canada slowed for the third consecutive month, reaching 2% in August 2024, down from 2.5% in July. The unemployment rate climbed to its highest level since October 2021, rising to 6.6% in August 2024, up from 6.4% in July.

The Volatility stocks with a high market beta that led Canadian markets in September mainly include the Infotech company Shopify Inc. (+8.0% in September) and financials company Brookfield Corp. (+6.0% in September). Key companies driving the forecast 12M revisions in the quarter were the financials company Royal Bank of Canada (+18.5% in Q3) and financials company Toronto-Dominion Bank (+17.0% in Q3).

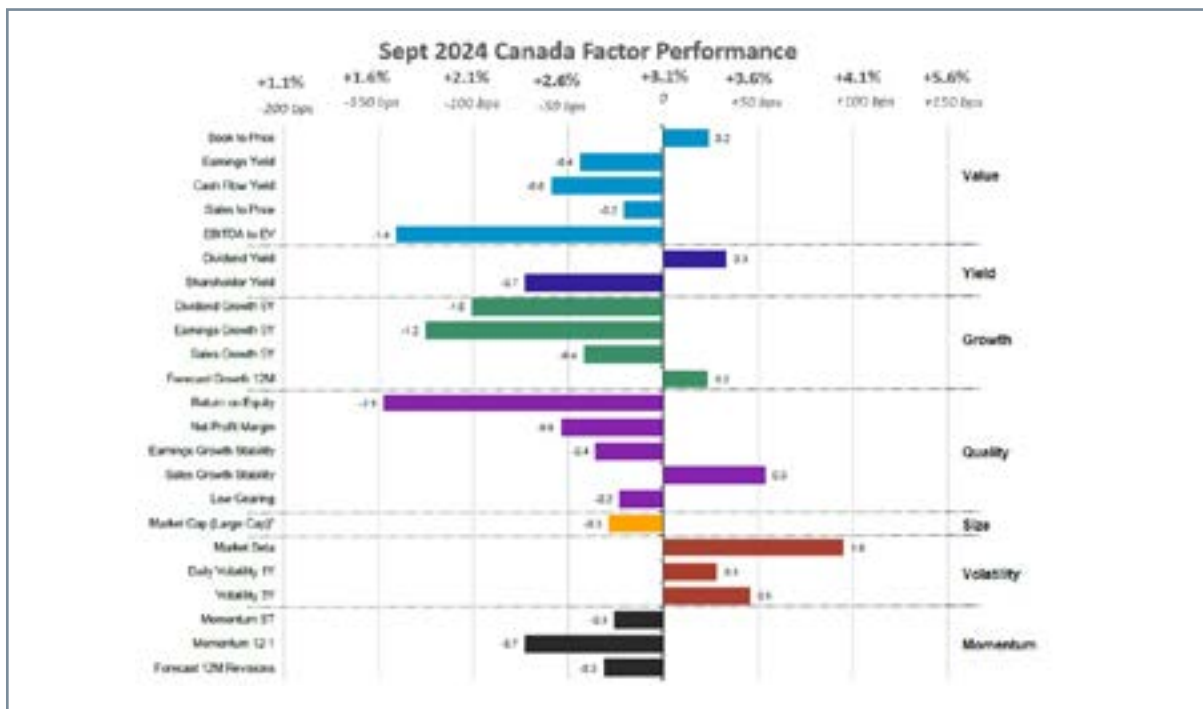


Figure 11: Sept 2024 Canada Factor Performance (sector adjusted)

Source: Confluence Style Analytics

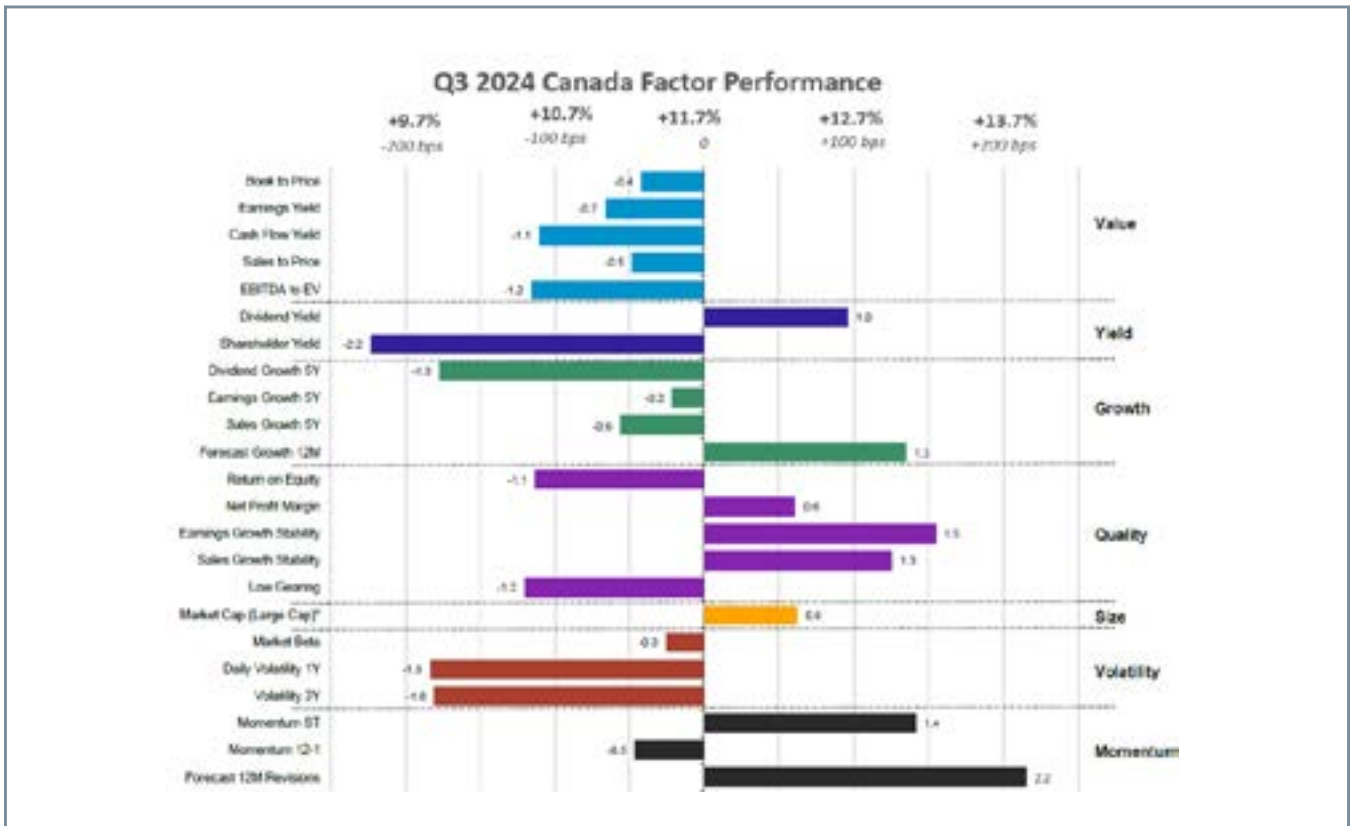


Figure 12: Q3 2024 Canada Factor Performance (sector adjusted)

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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