

Confluence Style Analytics

Q4 2024

# Factor Performance Analysis

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Momentum equities kick off 2025

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## Market Background

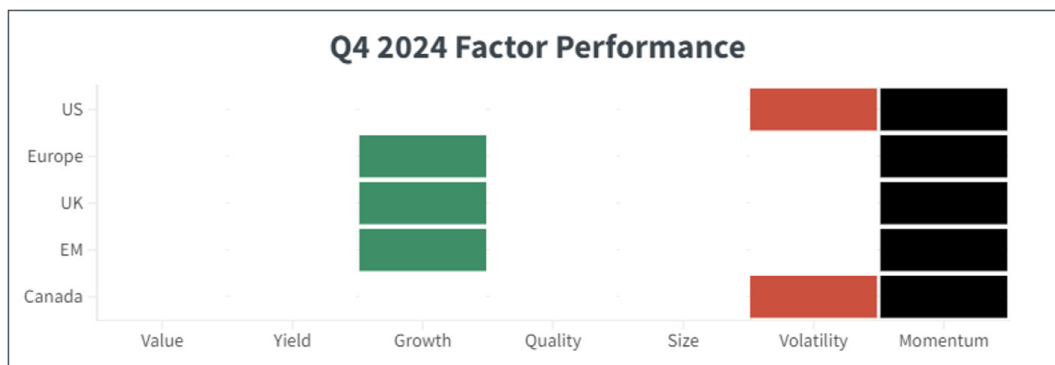
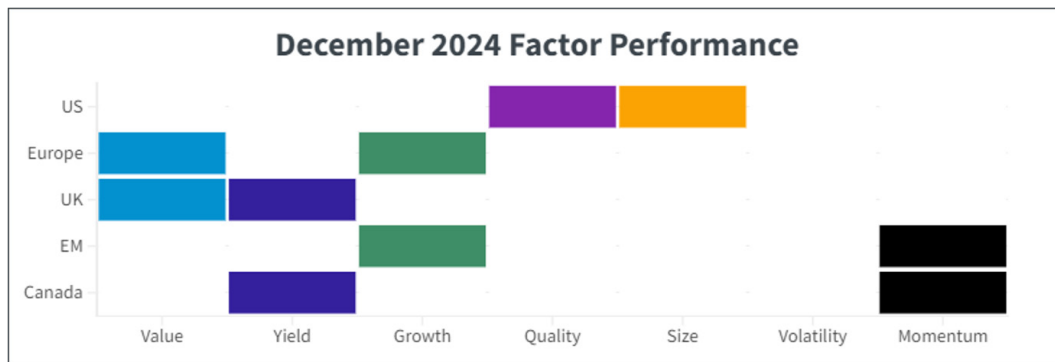
Q4 2024 was marked by momentum-led gains in U.S. equities, regional divergences in performance across Europe and emerging markets, and significant factor-driven returns globally. This report analyzes these dynamics to help investors prepare for 2025's uncertainties.

Although the U.S. election, a rising dollar, and increasing interest rates all played a role in market volatility this year, the final quarter of 2024 ended on a positive note, with stocks closing the year on a strong footing. Donald Trump's re-election as president of the United States sparked optimism in global financial markets. As his administration sets forth a policy agenda centered on tax cuts, trade protectionism, and deregulation, investors and analysts are assessing the potential impacts on the economy and stock markets.

Crude oil prices increased to \$72 per barrel by the end of December and continued to climb, reaching \$74 per barrel in the first week of January. Meanwhile, the price of gold fell to \$2,624 at the end of December, down from \$2,640 in November.

Bitcoin's market capitalization increased by 55%, and its realized cap rose by 28.9% during the final quarter of 2024. While this market cap growth was slightly lower than the 58% seen in Q1 2024, the increase in realized cap during Q4 surpassed that of Q1.

## Factor Summary



**Figures 1 & 2:** Regional relative factor performance (country and sector adjusted) for Dec '24 and Q4 '24. The arithmetic average of the subfactor's relative market return for each factor category and region.

Source: Confluence Style Analytics

Figures 1 and 2 show that Momentum's outperformance signals the importance of tracking short-term market trends, particularly in volatile environments. However, the underperformance of low volatility factors highlights the risks of over-allocating to traditionally defensive strategies during periods of economic growth. This trend is something to watch in early 2025.

## US Equities

Despite the negative performance in December, the fourth quarter overall posted positive returns of +2.3%, reinforcing a strong year for U.S. equities. In Q4, the Volatility and Momentum subfactors drove the gains, while in December, the Quality and Size subfactors took the lead. Volatility sub-factors outperformed the U.S. market in 2024, similar to 2023. In contrast, Momentum factors showed a reverse trend, outperforming by an average of 623 basis points, compared to their underperformance in 2023. Growth exhibited a similar trend to the previous year, with high dividend growth over 5 years, underperforming the market, while other growth factors outperformed. The significant outperformance of momentum was primarily driven by the MAG 7 stocks, with NVIDIA, Meta, and Amazon making the largest contributions to the performance.

The Federal Reserve (Fed) reduced interest rates by 25 basis points (bps) in both November and December. However, in December, the Fed sparked a stock market sell-off by lowering its projections for the number of interest rate cuts expected in 2025. U.S. inflation has decreased significantly since reaching a four-decade high in 2022, but recently, it has risen slightly, with the annual inflation increasing to 2.7% in November, moving further away from the Fed's long-term target of 2% while economic growth has remained resilient, and the labor market has stayed relatively robust.

Concentration and valuation risk in the market are evident from the factor performance trends for forecast revisions and Large-cap, but the overall trend reflects optimism. Both quarterly and annually, 12-month forecast revisions outperformed other subfactors, leading the market in 2024 by 730 basis points. This shift in performance suggests a more concentrated U.S. equity market.

Notable outperformers with high ROE in Q4 include Info Tech companies NVIDIA Corp (10.6% in Q4) and Apple Inc (+5.2% in Q4), potentially reflecting the increased growth of AI technologies. Broadcom Inc (43% in Dec) and Palantir Tech (13% in Dec) contributed to the subfactor's December performance. Large Cap companies that contributed to the outperformance of U.S. equities include Infotech company Apple (5.5% in Dec and 7.6% in Q4), consumer discretionary company Tesla Inc (17.0% in Dec, 54% in Q4), and cons discretionary company Amazon.com Inc (5.6% in Dec, 17% in Q4). Because U.S. equities are driven by Large-cap tech, this may signal a continued overweight position in tech for 2025.

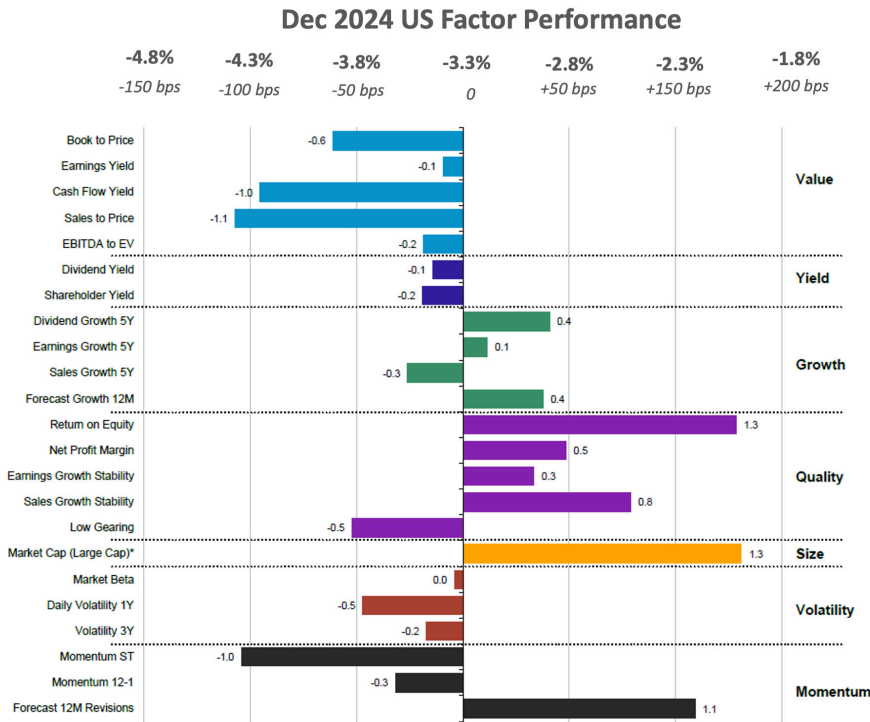


Figure 3: Dec 2024 US Factor Performance (sector adjusted)

Source: Confluence Style Analytics

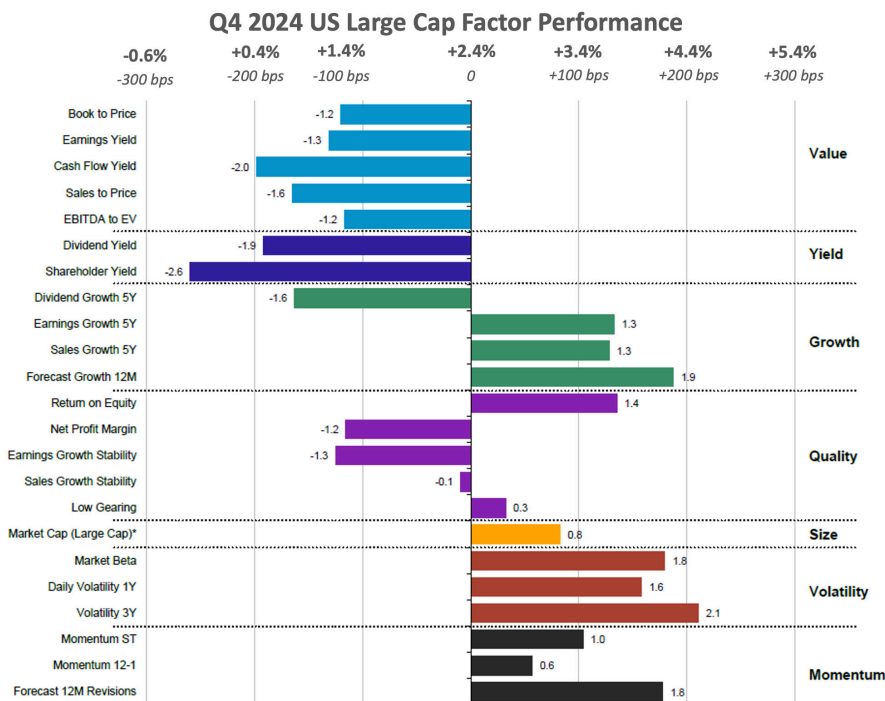
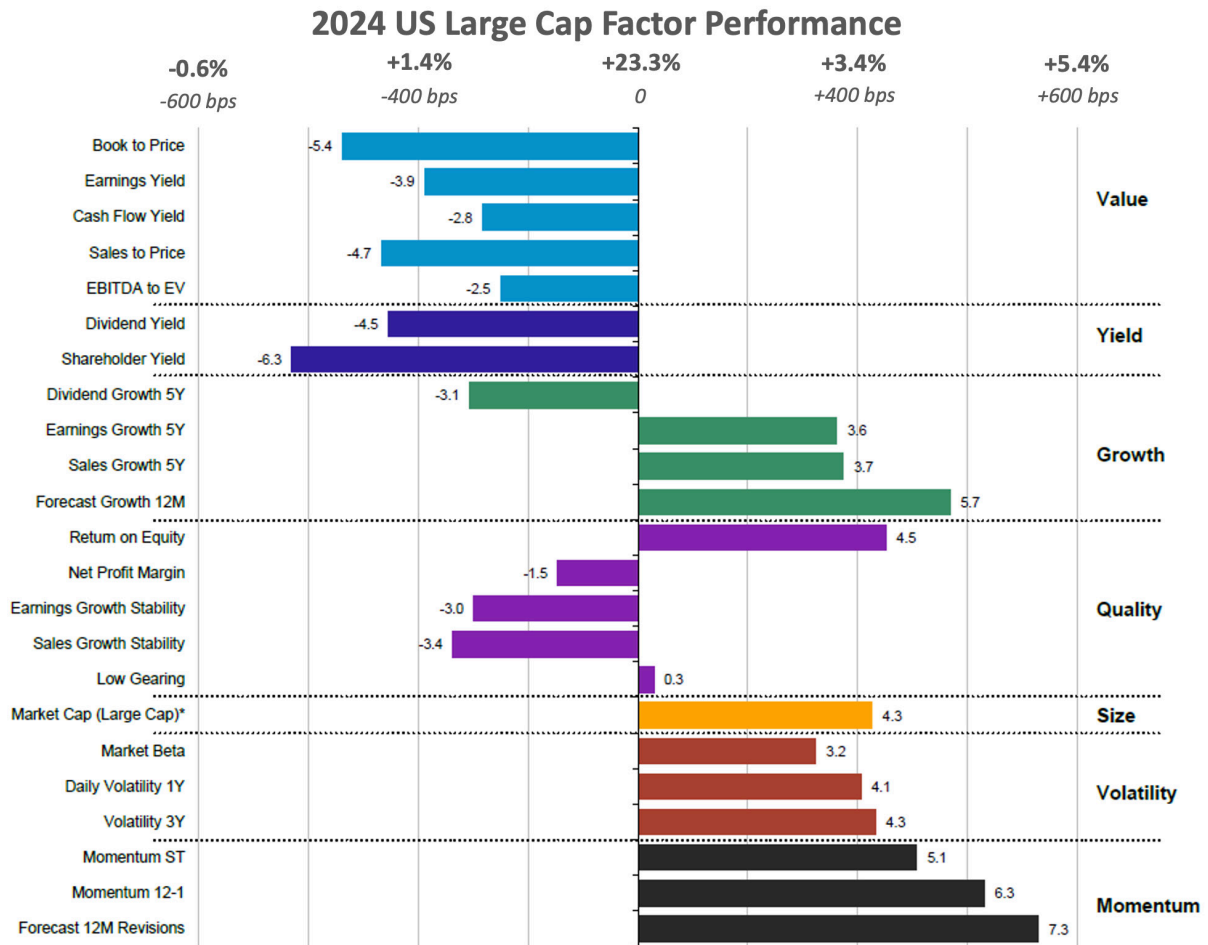


Figure 4: Q4 2024 US Factor Performance (sector adjusted)

Source: Confluence Style Analytics



**Figure 5:** 2024 US Factor Performance (sector adjusted)

Source: Confluence Style Analytics

US equities showed resilience in Q4 2024, driven by strong consumer spending, robust corporate earnings, and optimism around potential interest rate stabilization. The technology and healthcare sectors led gains, supported by innovation and sustained demand, while energy stocks benefited from steady oil prices. However, concerns about inflation and tighter monetary policy persisted, with cyclicals like real estate and utilities underperforming. Investors focused on high-quality growth stocks, reflecting confidence in the US economy despite macroeconomic uncertainties.

## European Equities

The European equity market saw underperformance in Volatility sub-factors in December, a trend that mirrored the overall performance for 2024 as well as the fourth quarter. In contrast, Value sub-factors outperformed in December, marking a reversal from the annual performance. The Growth and Momentum sub-factors followed a similar performance trend in 2024 as in 2023, with earnings growth, sales growth, and short-term momentum underperforming the European market while the other sub-factors outperformed. The Momentum 12-1 subfactor delivered the strongest performance this year, outperforming by 410bps. This strong performance was driven by securities such as Deutsche Telecom, Schneider Electric, and SAP SE.

Eurozone shares declined in Q4 amid concerns over a potential recession. France and Germany, impacted by structural and political factors, were the weakest performers during the quarter. The annual inflation rate in the region increased for the third consecutive month, reaching 2.4% in December 2024, the highest level since July. In response, the European Central Bank (ECB) reduced interest rates by 25 basis points in both October and December. The Eurozone Manufacturing PMI stood at 45.1 in December 2024, slightly down from 45.2 in the previous month, falling short of the initial market expectation of 45.3.

In contrast to the U.S. equity market, securities with high volatility in the Eurozone underperformed overall on an annual basis, while those with higher yields outperformed, leading to better conservative returns.

In December, investors preferred companies with high cash flow yield in the Eurozone region which include German comm services company Bertelsmann Se & Co (+2.0% in Dec) and French financials company BNP Paribas (+2.5% in Dec). Companies with high roe subfactor that contributed to the outperformance of Euro Zone include French cons disc company Hermes International (10.3% in Dec) and Industrials company Airbus (3.0% in Dec).

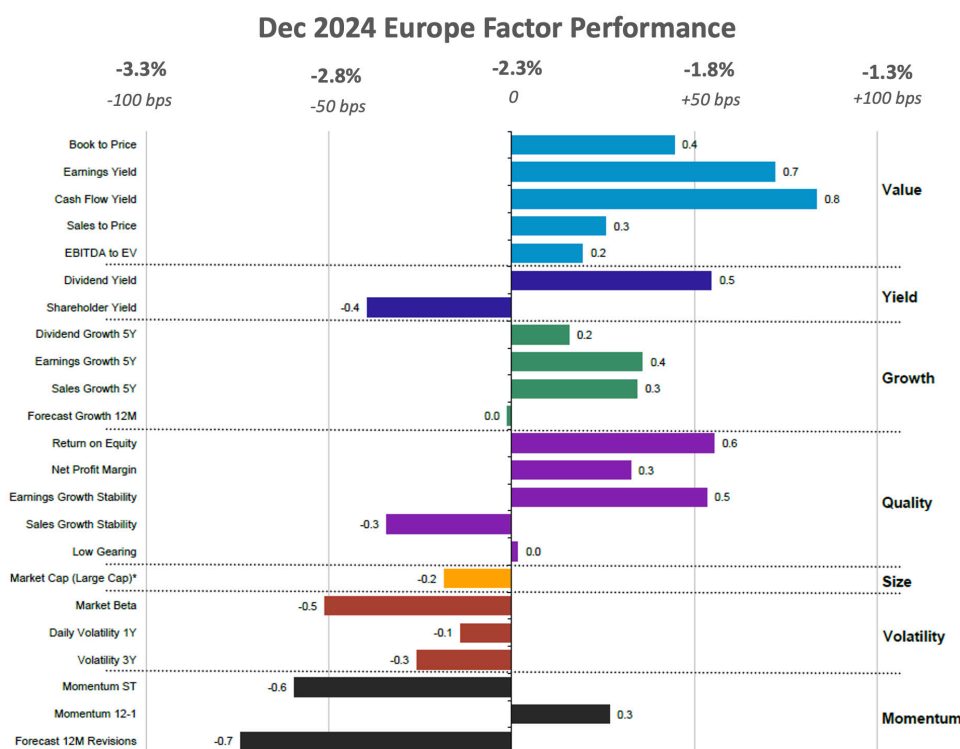
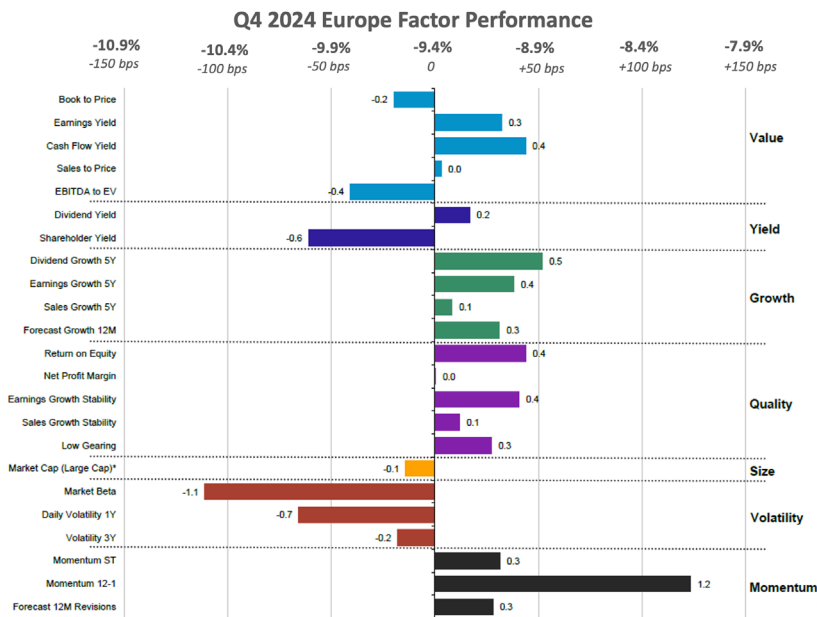


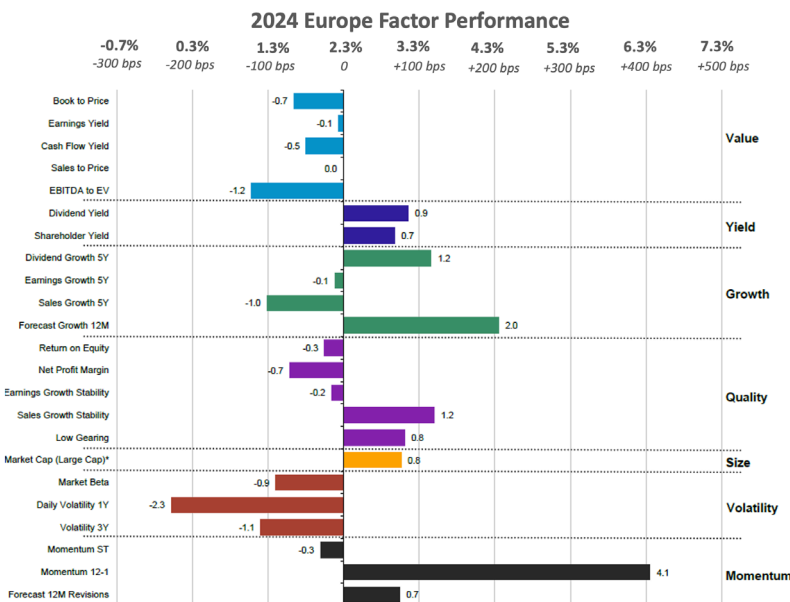
Figure 6: Dec 2024 Europe Factor Performance (sector adjusted)

Source: Confluence Style Analytics



**Figure 7: Q4 2024 Europe Factor Performance (country/sector adjusted)**  
 Source: Confluence Style Analytics

As seen in Figure 7, in Q4, high yield and value tend to trend to inflationary pressures or interest rate policies. This is something to watch in this market moving into 2025



**Figure 8: 2024 Europe Factor Performance (sector adjusted)**  
 Source: Confluence Style Analytics

European equities faced challenges in Q4 2024, underperforming their global peers due to persistent inflation concerns, tightening monetary policies, and geopolitical uncertainties. Defensive sectors such as consumer staples and healthcare provided stability, while industrials and energy struggled. The ECB's cautious approach to interest rates weighed on sentiment, and weak economic data from major economies like Germany added pressure. However, selecting growth sectors benefited from investor focus on quality and resilience.

## UK Equities

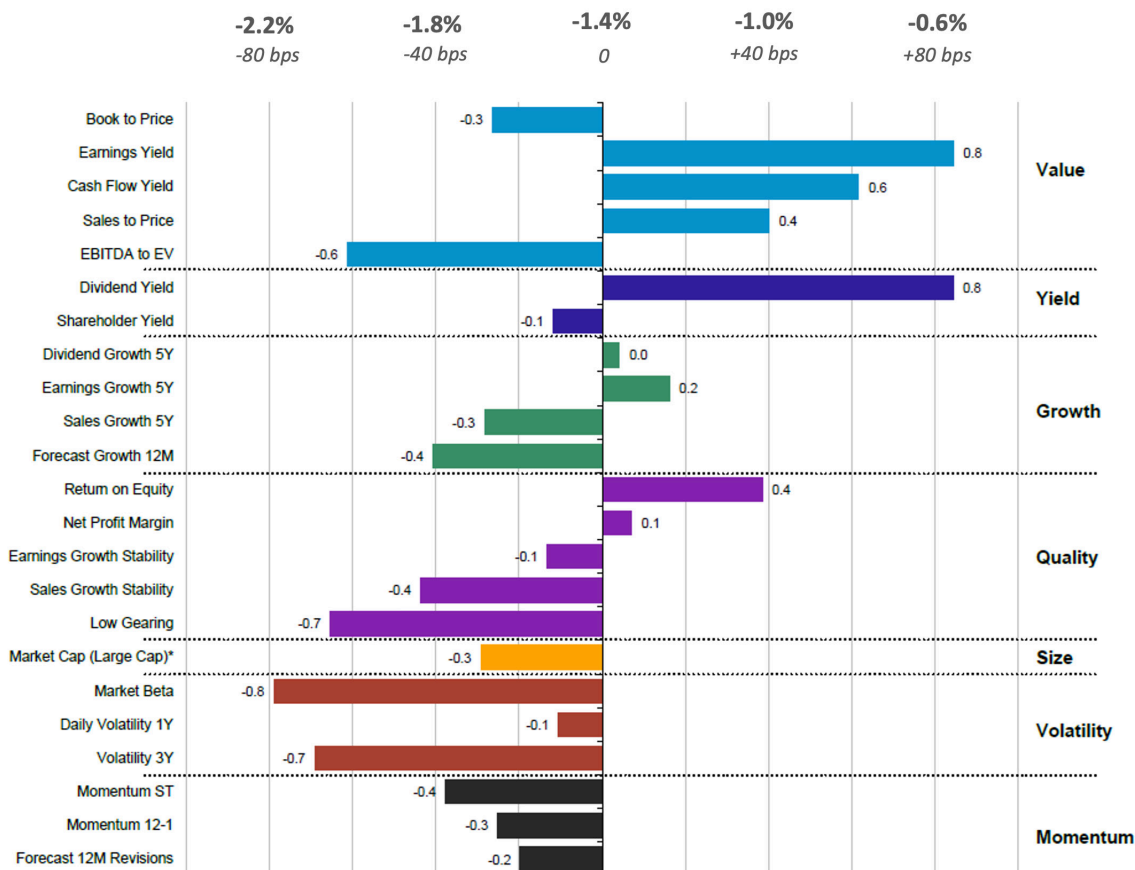
Although UK equities posted a negative performance in December 2024, the region outperformed both the U.S. and Eurozone. While most factors in the region underperformed the market this month, both earnings yield and dividend yield reported an outperformance of 80bps each.

Annually, securities with high sales to price subfactor outperformed the market the most, by 400 bps, companies contributing to this outperformance include finance companies HSBC Holdings and Barclays. Compared to the previous year, while all factors followed the same trend, value significantly outperformed its performance in 2023.

Amid concerns of stagflation, the UK is experiencing persistent inflation, leading the Bank of England to maintain high interest rates at 4.75% announced recently following a hold in December. The latest GDP figures for Q3 2024 show no economic growth. Employment Rate in the United Kingdom remained unchanged at 74.9% in October.

Equities driven by strong dividend yield, which contributed to Yield's outperformance in the region In Dec, include financials company HSBC Holdings (+5.60% in Dec) and Lloyd banking Group (+2.0% in Dec). The companies with notable dividend growth 5Y outperformance contributing to the quarterly returns include financials company HSBC holdings plc (10.8% in Q4) and London Stock Exchange Group (3.1% in Q4).

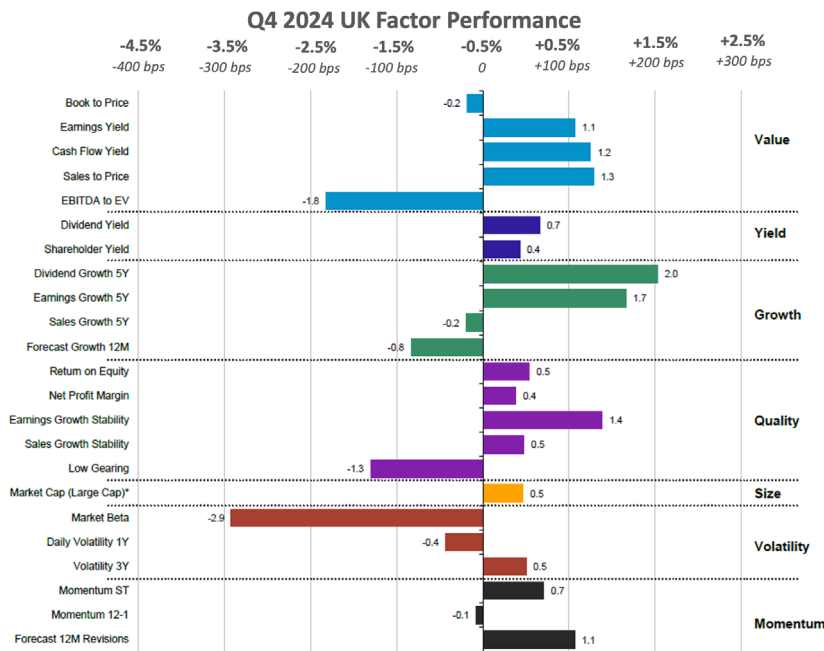
### Dec 2024 UK Factor Performance



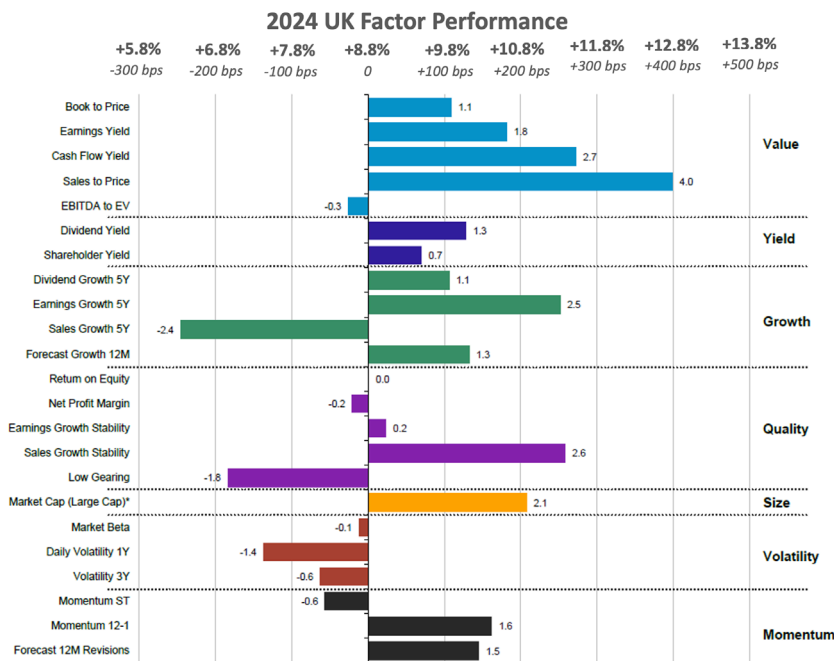
**Figure 9:** Dec 2024 UK Factor Performance (sector adjusted)

Source: Confluence Style Analytics





**Figure 10: Q4 2024 UK Factor Performance (sector adjusted)**  
 Source: Confluence Style Analytics



**Figure 11: 2024 UK Factor Performance (sector adjusted)**  
 Source: Confluence Style Analytics

UK equities delivered mixed performance in Q4 2024, with Large-cap stocks benefiting from international revenue exposure amid a weakening pound. Defensive sectors such as utilities and consumer staples outperformed, while domestic-focused sectors like retail and real estate faced headwinds from ongoing economic uncertainty. Investor sentiment was cautious due to inflationary pressures, Brexit-related challenges, and the Bank of England's monetary tightening, limiting broader market gains.

## Emerging Markets Equities

Despite a negative performance, emerging market returns in the final month of 2024 were stronger than those of their developed market counterparts. Brazilian shares were the weakest in the EM region, amid growing concerns over the country's fiscal outlook. South Korea experienced losses due to political instability. India ended the quarter underperforming the broader index. In China, investor concerns about the potential impact of proposed Trump trade tariffs on Chinese exports negatively affected the market index during the quarter. Momentum subfactors in the region outperformed the market throughout the year, delivering an average annual outperformance of 113 basis points, with a 19-basis point outperformance in December. Securities contributing to the outperformance of short-term momentum subfactor include Taiwanese Info tech company Taiwan Semiconductor Manufacturing Co. (7.3% in Dec and 8.8% in Q4), Chinese financials company Industrial and Commercial Bank of China (11.5% in Dec and 7.6% in Q4) and China Construction Bank Corp (11.0% in Dec and 10.2% in Q4)

The annual inflation rate in India eased to 5.48% in November of 2024 from 6.21% in the previous month while the employment Rate in India increased to 47.20% in the third quarter of 2024. On the other hand, in Brazil, the annual Inflation rate rose to 4.87% in November from 4.76 in the previous month and the employment rate increased from 58.4% to 58.7%. China's annual inflation rate edged down to 0.1% in December 2024 from 0.2% in the previous month. South Korea's annual inflation rate also increased to 1.9% in December 2024, up from 1.5% in November while the employment rate decreased by 10bps from the previous month to 63.2%.

Emerging Markets equities that outperformed in the month of Dec, captured by dividend growth 5Y subfactor, include a Chinese communication services company Tencent Holdings Ltd (+5.0% in Dec); Chinese financials company Agricultural Bank of China (+10.0% in Dec). Notable outperformers with roe that outperformed in Q4 include Chinese Info tech company Hygon Information Technology Co (+39% in Q4), Chinese financials company Industrial and Commercial Bank of China (7.6% in Q4).

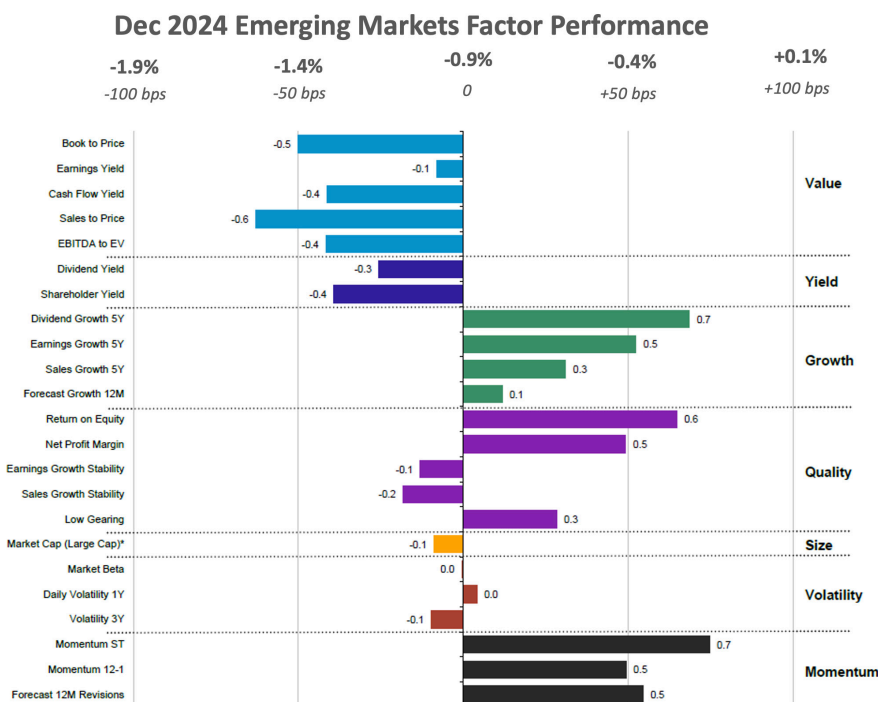


Figure 12: Dec 2024 Emerging Markets Factor Performance (sector adjusted)

Source: Confluence Style Analytics

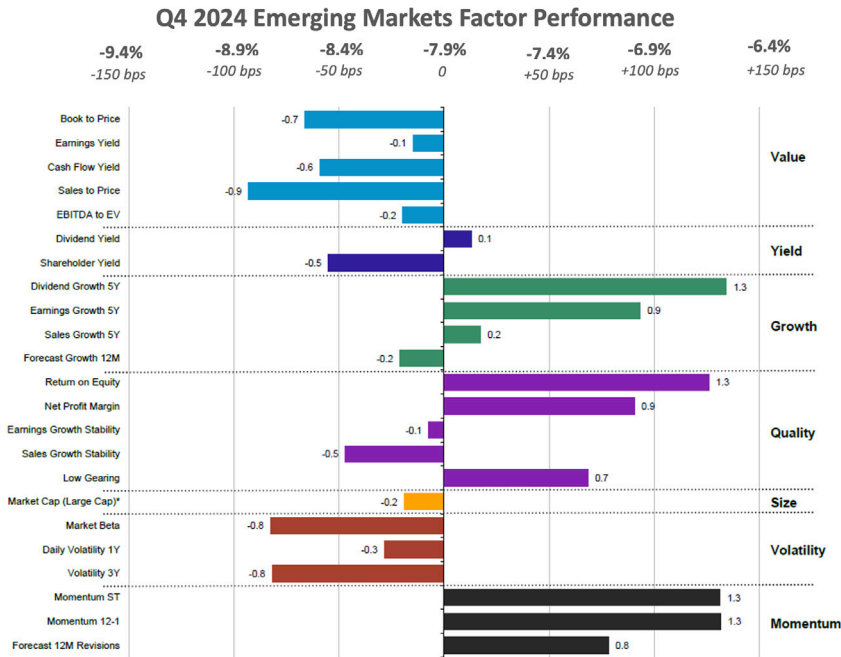


Figure 13: Q4 2024 Emerging Markets Factor Performance (sector adjusted)  
Source: Confluence Style Analytics

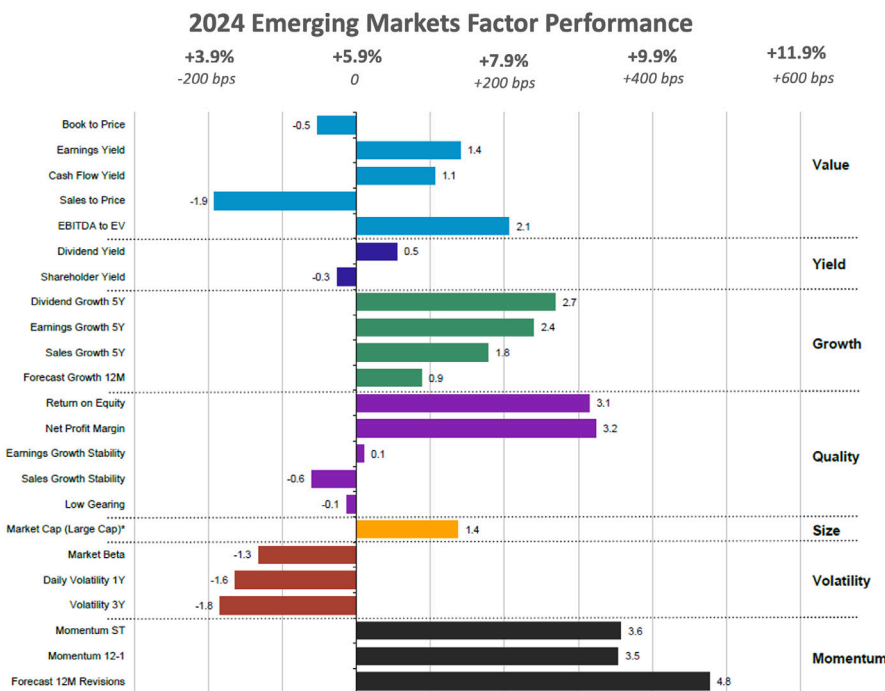


Figure 14: 2024 Emerging Markets Factor Performance (sector adjusted)  
Source: Confluence Style Analytics

Emerging markets equities faced challenges in Q4 2024, impacted by global growth concerns, tighter monetary policies, and a strong U.S. dollar. China's underperformance, driven by weak growth and regulatory issues, contrasted with resilience in some Latin American markets supported by strong commodity exports. While technology and energy sectors offered opportunities, political and macroeconomic risks underscored the need for selective investments.

## Canadian Equities

While Canada posted negative performance in both December and the fourth quarter of 2024, the consistent outperformance of Momentum throughout the year contributed to a positive 10% annual performance for the region. Securities driving the outperformance of subfactor momentum 12-1 include Shopify, Brookfield Corp and Manulife. Yield subfactors also outperformed in December, as the Bank of Canada lowered interest rates by 0.50% in the last two meetings, bringing the rate down to 3.25%. The equity performance in December was also influenced by the updated tariff outlook between the U.S. and Canada.

Despite Yield's marginal outperformance in December, this does not translate when examined from a quarterly or annual perspective. Both subfactors Dividend Yield and Shareholder Yield underperformed the market annually. A reversal in the Momentum subfactors was observed, with an average outperformance of 470bps in 2024, compared to an underperformance in 2023.

Inflation in Canada eased throughout 2024, remaining within the range of Bank of Canada's target. As a result, the BoC reduced its policy rate for the fifth consecutive time, bringing it down to 3.25%. The region's employment rate decreased to 60.70% in September, down from 60.80% in August 2024.

The Value stocks with a high book to price that supported Canadian markets in Dec mainly include financials company Bank of Montreal (+1.8% in Dec and 8.7% in Q4); Info tech company Celestica (+7.3% in Dec and 80% in Q4). Key companies driving the forecast 12M growth in the quarter were Info tech company Shopify (+25.0% in Q4), energy company Enbridge (6.0% in Q4) and financials company Brookfield corp. (+8.2% in Q4).

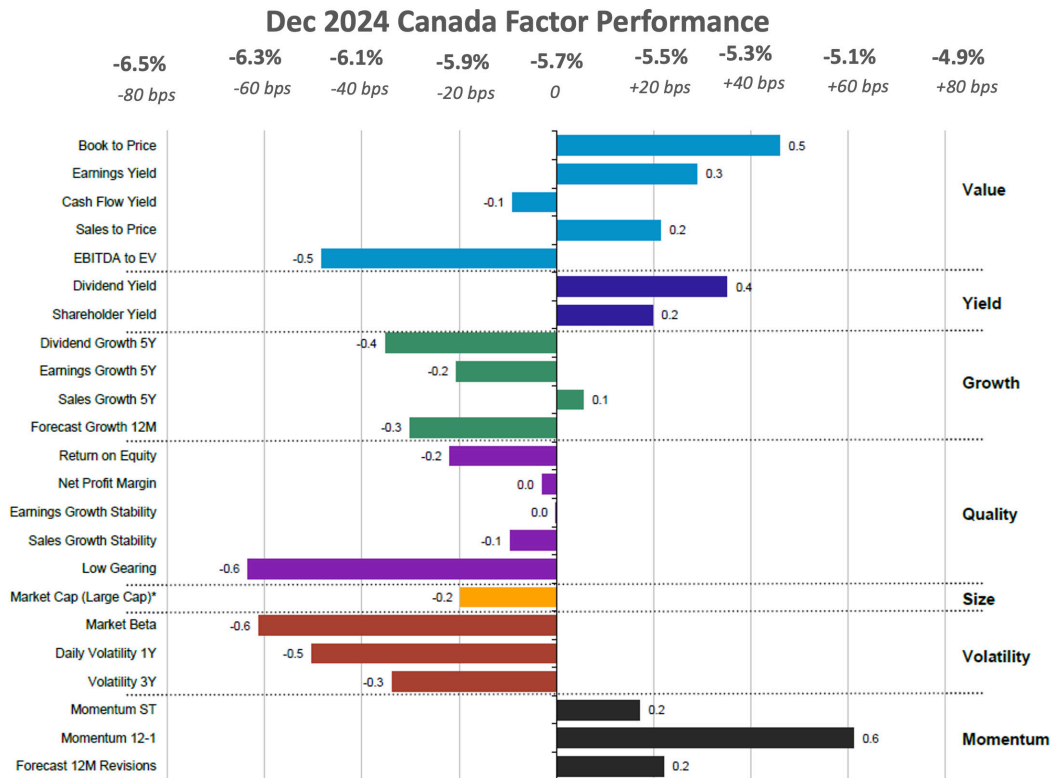


Figure 15: Dec 2024 Canada Factor Performance (sector adjusted)

Source: Confluence Style Analytics

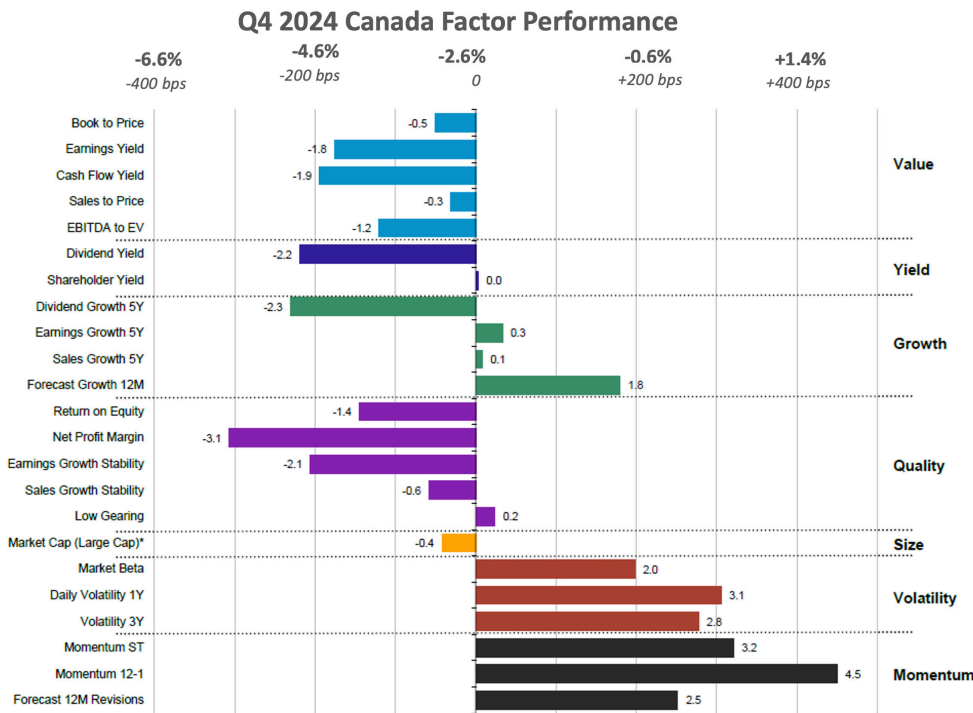


Figure 16: Q4 2024 Canada Factor Performance (sector adjusted)

Source: Confluence Style Analytics

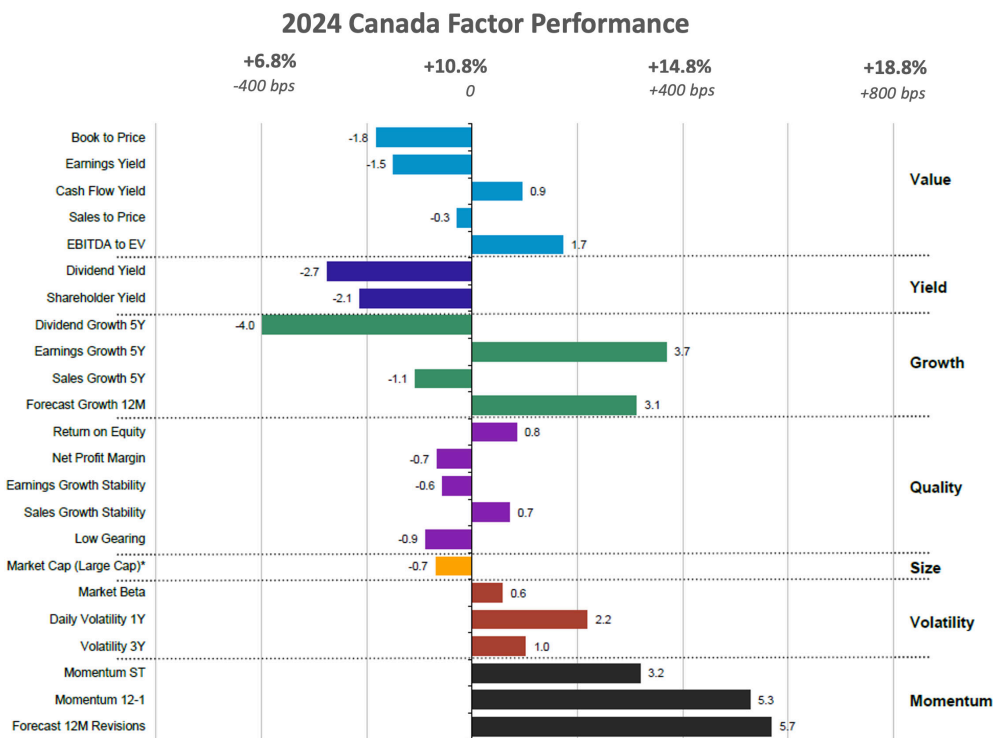


Figure 17: 2024 Canada Factor Performance (sector adjusted)

Source: Confluence Style Analytics

As seen in Figure 16 Canadian equities delivered mixed performance in Q4 2024, driven by fluctuations in energy prices and economic uncertainty. The energy sector remained a key contributor, benefiting from stable oil prices, while financials saw moderate gains despite concerns over slowing economic growth. Weakness in industrials and materials, tied to global demand concerns, tempered overall performance. Investors maintained a cautious outlook amid high interest rates and inflationary pressures.

## Conclusion

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As 2024 came to a close, equity markets across regions demonstrated resilience in the face of geopolitical and macroeconomic uncertainties. U.S. equities led the way with notable gains, driven by momentum and Large-cap growth, particularly in the technology sector. Meanwhile, European and UK markets highlighted the importance of high-yield and value-oriented strategies, reflecting shifts in investor preferences. Emerging markets displayed a nuanced performance, with regions like China and Brazil facing both unique challenges and opportunities.

The clear trend across regions was the continued significance of factor-based investing, underscoring the need for granular analysis to optimize portfolios. Momentum, volatility, and valuation factors played pivotal roles in shaping returns, while inflation and interest rate fluctuations influenced regional market dynamics.

Looking ahead to 2025, investors should remain agile, leveraging advanced analytics tools such as Confluence Style Analytics with factor insights to navigate evolving markets. Policymaker actions, such as rate adjustments by the Federal Reserve and the European Central Bank, alongside geopolitical developments, will remain critical drivers of market performance. For asset managers, maintaining a diversified, data-driven approach will be essential to achieving outperformance in this rapidly shifting landscape.

## Appendix: How to read the charts

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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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