

Confluence Style Analytics

January 2025

Factor Performance Analysis

Large-cap dominates global equities

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Market Background

The first month of 2025 saw strong returns in the equity markets, driving new all-time highs globally. Notable gains were in the United States and Eurozone. Factor trends have diverged from last year's patterns across all regions, with Large-cap equities leading the markets in January.

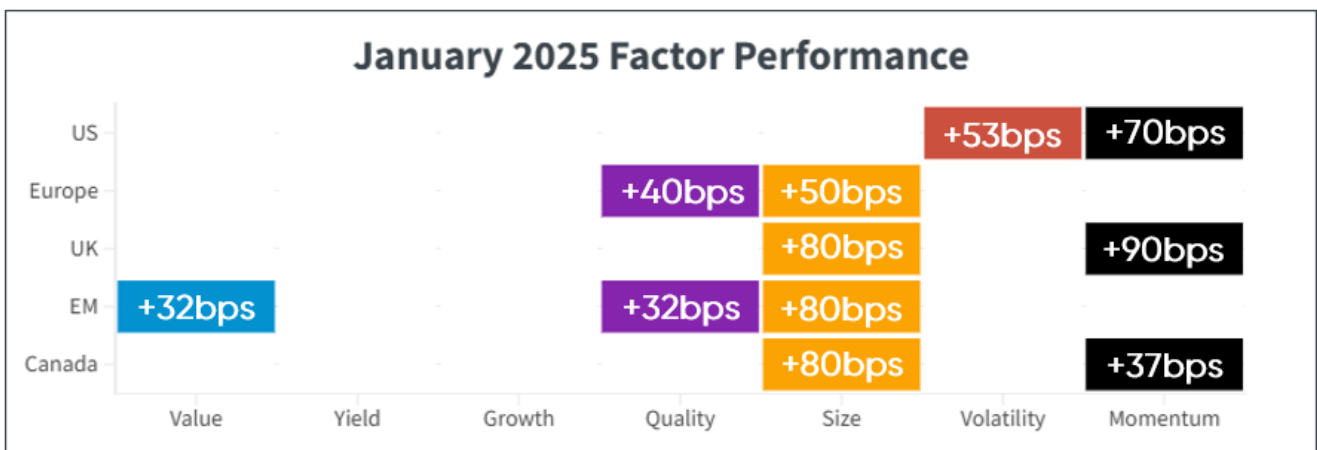
Consumer prices in the USA rose 0.5% in January, above market expectations. The Fed is dealing with significant uncertainty regarding the policies of the new Trump administration. Eurozone inflation surged to 2.5% in January, higher than expected, driven by a rise in energy costs.

Crude oil prices rose to \$72 per barrel after peaking at \$79 per barrel in mid-January.

Gold prices rose at the end of Jan to \$2,637/ troy ounce at month-end. 2024 was a record-breaking year for Bitcoin Futures, with volumes more than four times higher than in 2023. Crypto markets continued their upward trend in January, which also saw a flurry of activity that is likely to shape the digital assets industry throughout 2025 and beyond. Overall, the crypto market valuation rose by 7% in January 2025.

Factor Summary

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



US Equities

Equities in the U.S. region had a strong start to 2025, gaining 3.1% in January. Volatility and Momentum equities led the market, outperforming by 53 and 70 bps, respectively. Value equities closely followed, surpassing the market by 44 bps, with all value subfactors outperforming. Although not the top contributor to the region's outperformance, compared to the previous month's performance and the overall performance of 2024, Value subfactors outperformed the market this month, signalling a rise in investor confidence towards Value equities.

However, the earnings yield subfactor underperformed the market by 20 bps. When comparing the performance of January 2025 to January 2024, the Momentum and Yield subfactors followed a similar trend, while the Value and Volatility subfactors showed an opposite trend compared to the previous year.

Although value equities were not the top contributor to the region's outperformance, compared to the previous month's performance and the overall performance of 2024, value subfactors outperformed the market this month, signalling a rise in investor confidence towards value equities.

While stocks showed initial optimism following the November election, the market faced challenges in December when the Fed revealed plans to slow the interest rate hikes this year. However, by the third week of January, those concerns faded, and U.S. equities hit new highs. January also experienced a brief market sell-off following the announcement of Deepseek, a Chinese AI platform.

The U.S. unemployment rate decreased by 0.1 percentage point to 4.0% in January 2025, reaching its lowest level since May 2024. The U.S. Manufacturing PMI increased to 50.9 in January 2025, up from a revised 49.2 in December 2024, indicating the first expansion in factory sector in around two years.

Consistent with both the previous month and the overall performance of U.S. equities in 2024, Forecast 12M revisions also outperformed the market by 120 bps in January 2025. The Yield subfactor, Shareholder Yield, and Quality subfactor's net profit margin contributed to dragging down U.S. market performance this month, underperforming the market by -130 bps and 120 bps, respectively.

Stocks with stable momentum 12-1 which contributed to the performance of US in January include financials company JPMorgan Chase and co (12% in Jan), and communication services company Alphabet Inc (8% in Jan). Additionally, companies with high daily Volatility 1Y include utilities company Constellation Energy Corp (+34% in Jan), industrials company General Electric Company (22% in Jan) and communication services company Meta Platforms Inc (18% in Jan) also contributed to the outperformance.

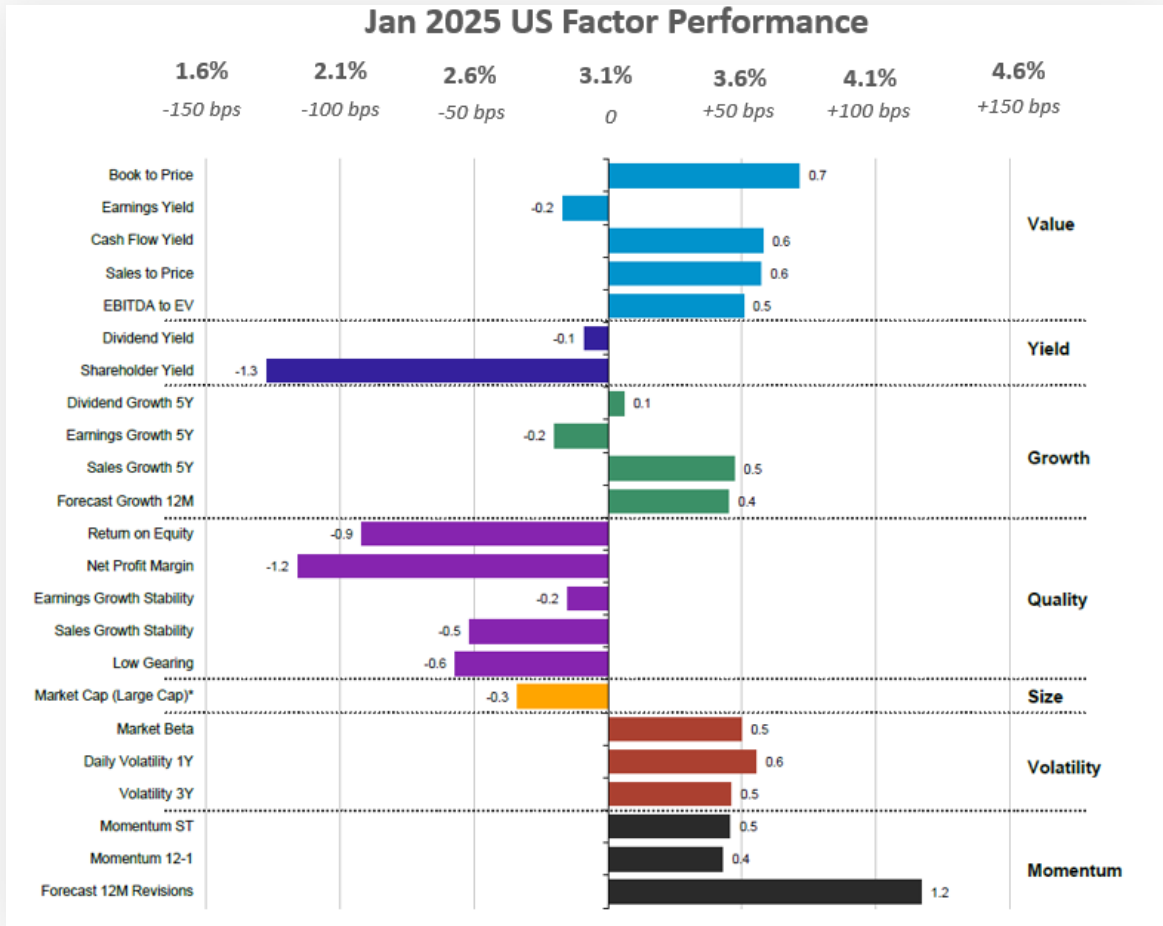


Figure 1: Jan 2025 US Factor Performance (sector adjusted)

Source: Confluence Style Analytics

European Equities

European equities delivered an impressive return of 6.4% this month, with Growth, Quality, Size, and Momentum factors driving the region's outperformance. However, Value and Yield stocks underperformed, which dampened the region's overall performance.

The region's outperformance, which surpassed other regions this month, was also fuelled by the semiconductor turmoil that emerged during the month.

The annual inflation rate in the Euro Area rose to 2.5% in January 2025, up from 2.4% in December. Meanwhile, the unemployment rate in the Euro Area increased to 6.3% in December 2024, compared to a revised record low of 6.2% in November. Manufacturing production in the Euro Area fell by 2% in November 2024.

Key return on equity driver European stocks in January include French industrials company Safran (+14% in Jan) and Italian financials company Unicredit Spa (+16% in Jan). Large-cap equities in the Eurozone region that contributed to this region's outperformance include French consumer discretionary company Hermes International (18% in Jan) and Spanish financials company Banco Bilbao Vizcaya Argentaria (17% in Jan).

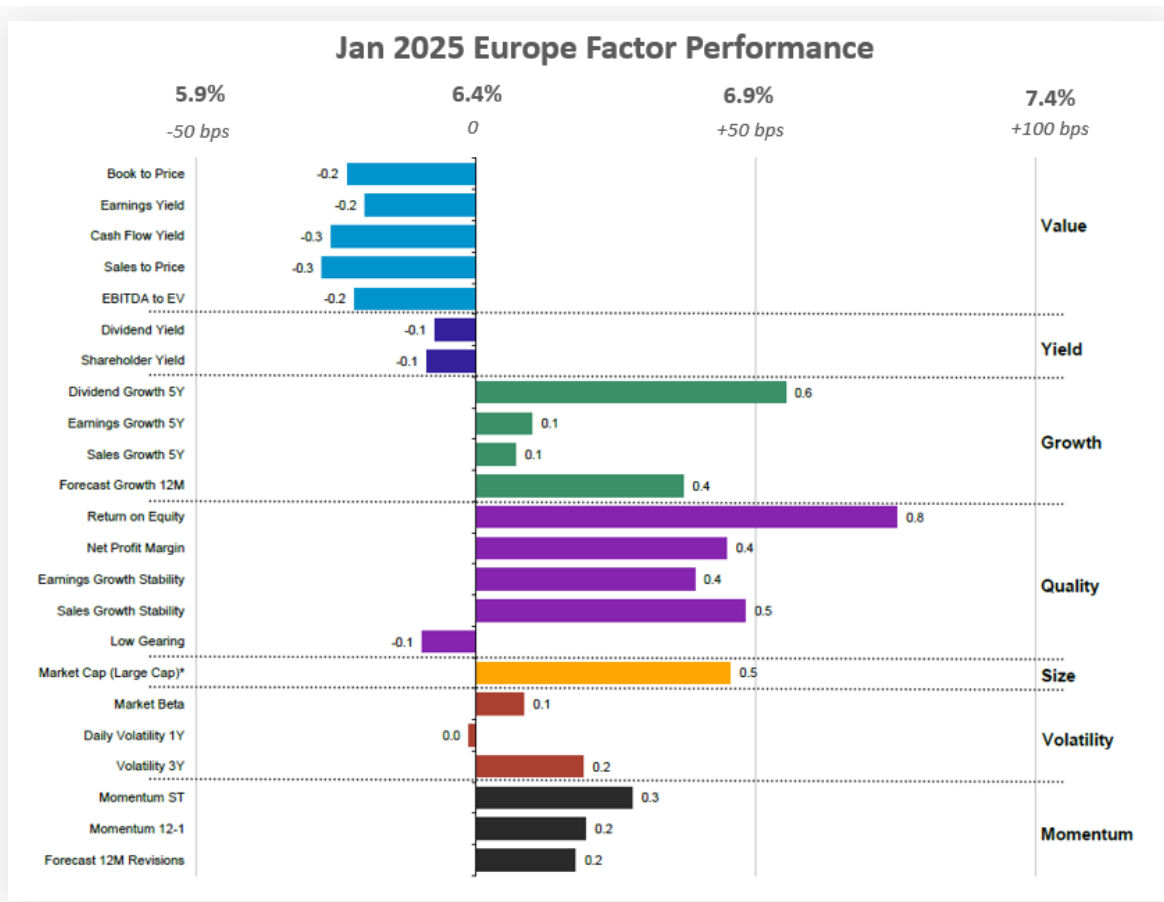


Figure 2: Jan 2025 Europe Factor Performance (country and sector adjusted)

Source: Confluence Style Analytics

UK Equities

In January 2025, the UK equity market outperformed the market by 5.4%. This month's outperformance was predominantly driven by the factors Size and Momentum, which led the markets. All other factors contributed to the region's outperformance except for the Value and Volatility subfactors.

In line with the previous month, Volatility factors underperformed the market by 33 basis points, weighing down the region's performance. When comparing the region's performance to January of the previous year, Value subfactors underperformed again, similar to last time, while the Quality subfactor saw a significant shift, contributing to the region's outperformance by 42 bps this month. The region was also led by Large-cap companies, as observed, Size factors contributed 80 basis points to the region's outperformance.

The annual inflation rate in the UK edged lower to 2.5% in December 2024 from 2.6% in November 2024. Manufacturing production fell by 0.3% month-over-month in November. The United Kingdom's unemployment rate increased to 4.4% between September and November 2024.

British stocks with earnings growth stability that outperformed this month include industrials company Relx Plc (+10% in Jan), Experian Plc (+16% in Jan), and financials company HSBC Holdings (7% in Jan).

Stocks with high Momentum 12-1 outperforming the UK market include consumer staples company British American Tobacco Plc (10% in Jan), health care company AstraZeneca Plc (8% in Jan), and financials company Barclays Plc (10% in Jan).

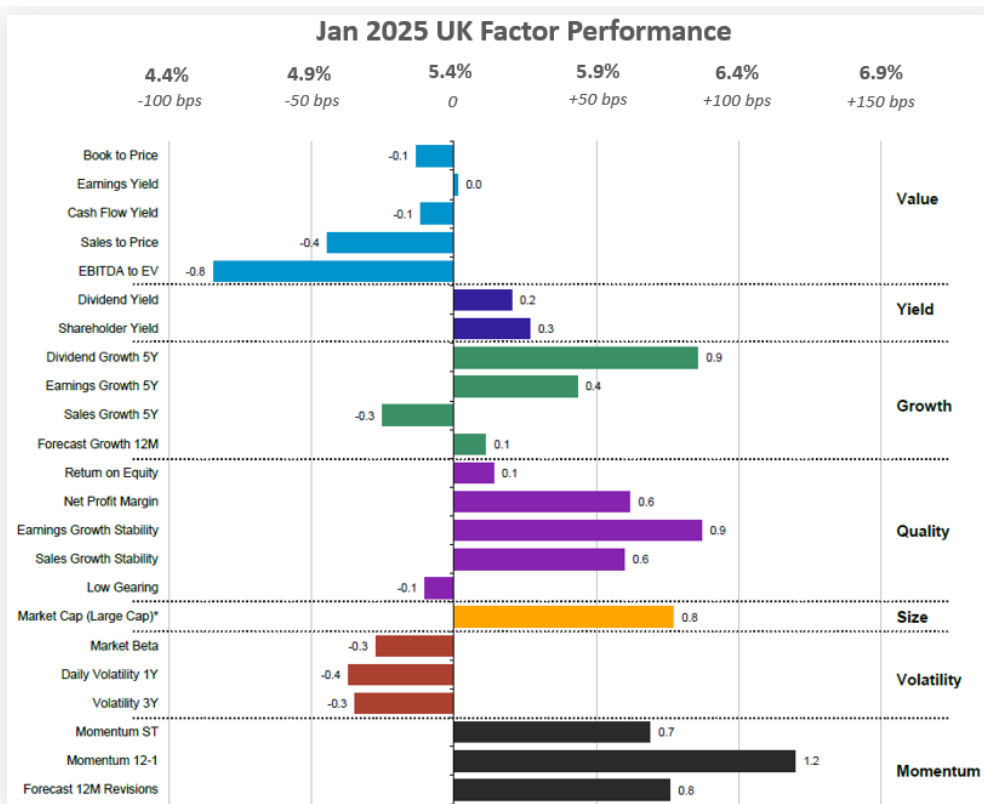


Figure 3: Jan 2025 UK Factor Performance (sector adjusted)

Source: Confluence Style Analytics

Emerging Markets Equities

The factor trend in Emerging Markets favored Value, Quality, and Size, outperforming the market by 32 bps, 32 bps, and 80 bps, respectively. The region's negative 3.0% performance was primarily driven by Volatility subfactors, with market beta. The underperformance of the Volatility and Momentum subfactors primarily held back the region's performance.

This month, a shift was observed in the Volatility and Growth subfactors compared to the previous month, with both dividend growth 5Y and earnings growth 5Y subfactors underperforming the market by 20 bps, while Quality subfactor earnings growth stability posted an outperformance of 90 bps.

India's annual inflation rate eased to 5.22% in December 2024, down from 5.38% in the previous month. India's unemployment rate rose to 8.30% in December 2024, up from 8% in November. Mexico's annual inflation rate slowed for the third consecutive month in January 2025, reaching a four-year low of 3.59%, slightly below the market forecast of 3.61%. Brazil's annual inflation rate eased to 4.56% in January 2025, down from 4.83% in the previous month. Brazil's unemployment rate dropped to 6.2% in the fourth quarter of 2024, down from 6.4% in the third quarter.

Emerging Markets equities that outperformed in the month of January, captured by the earnings growth stability subfactor, include Chinese consumer discretionary company Alibaba Group Holdings (+8% in Jan) and Chinese financials company China Merchants Bank Co Ltd (+4 % in Jan). Companies with a large market cap include Taiwanese info tech company Taiwanese Semiconductor Manufacturing Company (+6 % in Jan) and Brazilian financials company Nu Financials Ltd (35% in Jan).

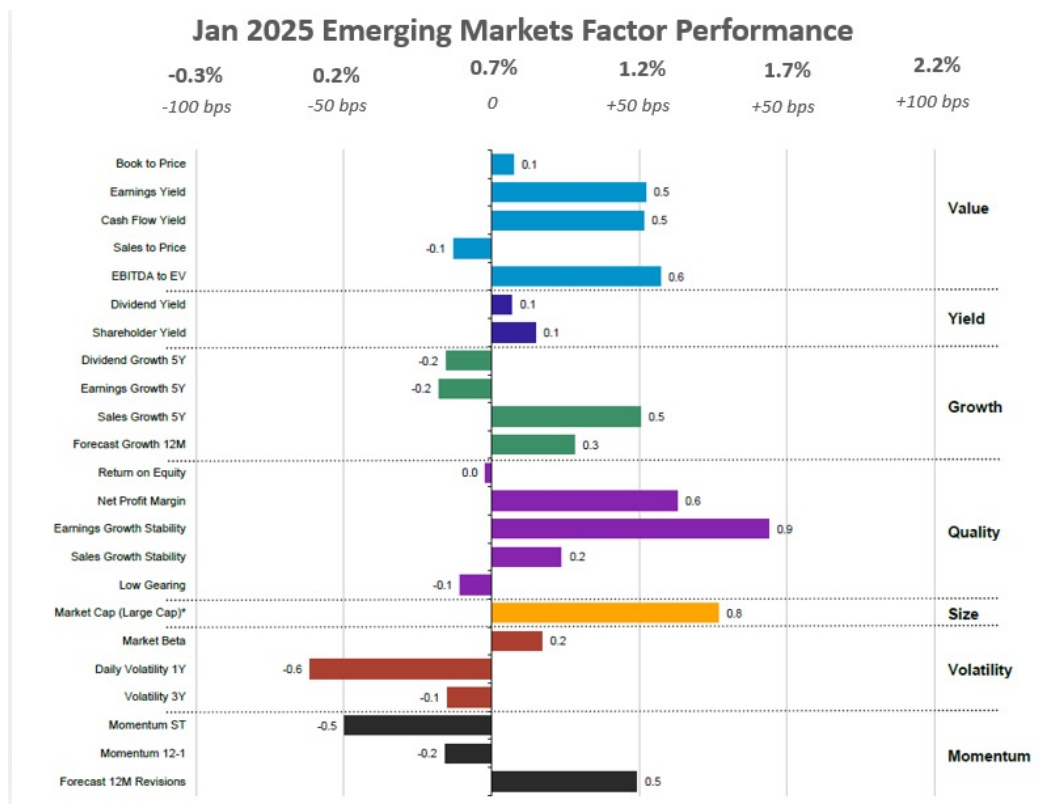


Figure 4: Jan 2025 Emerging Factor Performance (country and sector adjusted)

Source: Confluence Style Analytics

Canadian Equities

The factor performance trend was more mixed in Canada, with neither value nor growth delivering significant premiums. In Value, stocks with a high book-price ratio outperformed, while other subfactors underperformed. Likewise, within Growth, although companies with good sales growth 5Y and dividend growth 5Y delivered a 60 bps and 40 bps premium respectively, while stocks with strong earnings growth and forecast growth underperformed overall.

When comparing the region's equity market performance to last month, quality stocks underperformed as they did previously. However, unlike last month, stocks with a strong low gearing ratio saw a significant outperformance against the market. Additionally, Yield subfactors showed a contrast to the previous month, underperforming the market this time. Large-cap companies and Momentum equities, similar to other Developed Markets, outperformed the region's equity market this month, delivering an 80 bps premium in Size and a 37 bps premium in Momentum.

Canada's annual inflation rate eased to 1.8% in December 2024, down from 1.9% in the previous month. Meanwhile, the unemployment rate dropped to 6.6% in January 2025 from 6.7% the month before, marking the lowest level in three months.

Stocks with a strong debt-to-equity ratio and low gearing ratio in the region include Infotech company Shopify (+10% in Jan) and materials company Agnico Eagle Mines Ltd (+19% in Jan). Large-cap equities that outperformed in the region include financial companies Brookfield Corp (7% in Jan) and Royal Bank of Canada (2% in Jan).

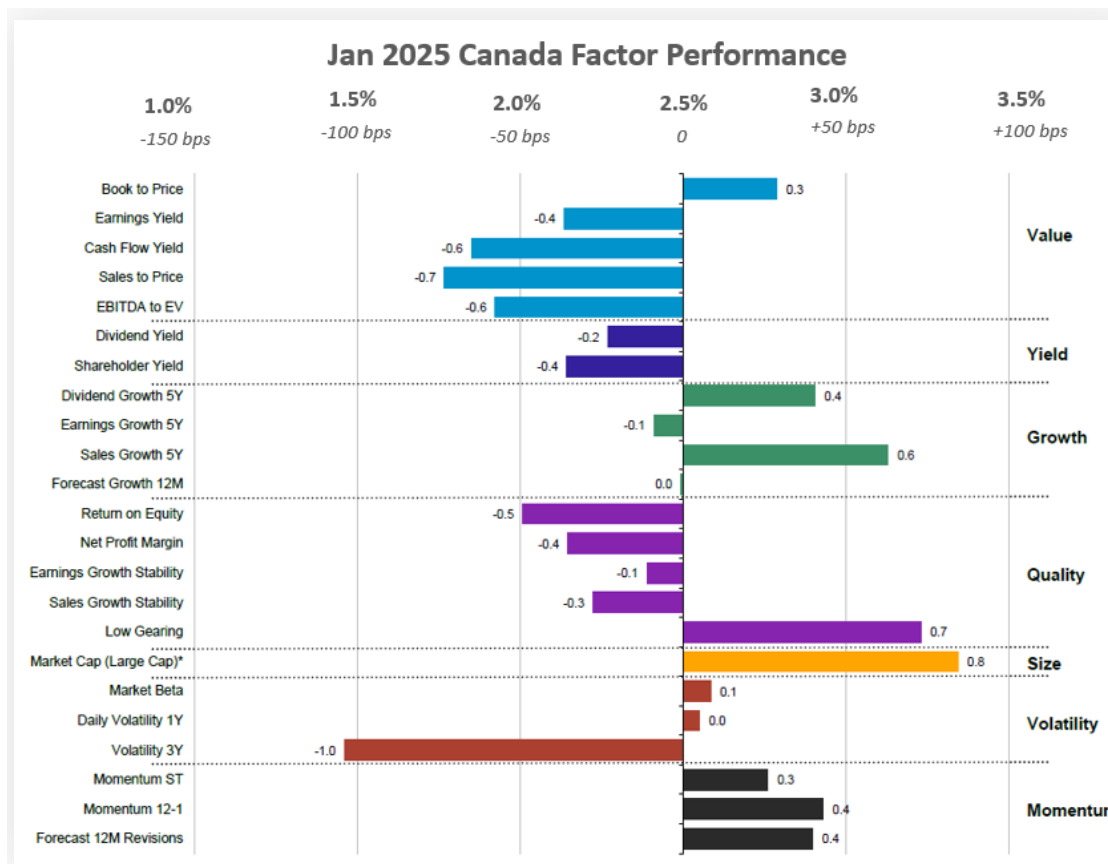


Figure 5: Jan 2025 Canada Factor Performance (sector adjusted)

Source: Confluence Style Analytics

About Style Analytics

Style Analytics provides industry-leading, visually compelling portfolio insights, empowering asset managers to analyze factor exposures with confidence. With advanced tools like the Style Skyline™, users can visually compare their fund's factor exposures against benchmarks, enhancing portfolio strategy with faster, data-driven decisions. Access to 28,000+ funds with pre-calculated factor exposures enables efficient comparison and identification of similar or competing funds. The platform ensures transparency by validating style consistency and alpha generation through an independent factor lens, while offering 130+ factors for effective investor communication. Style Analytics allows users to track and understand factor shifts and simulate rebalancing decisions, optimizing risk management and portfolio differentiation.

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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About Confluence

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