

Confluence Style Analytics

February 2025

Factor Performance Analysis

Global Shift Towards Yield

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Market Background

The February began with rising concerns over a potential global trade war, fuelled by threats of tariffs on U.S. imports from Canada and Mexico. U.S. equity markets showed mixed performance amid ongoing economic uncertainties and policy shifts, reflecting investor worries about potential tariffs and economic growth.

Although Canada's economic activity improved towards the end of last year, it remained uncertain this year due to the looming risk of extensive U.S. tariffs, dampening consumer confidence.

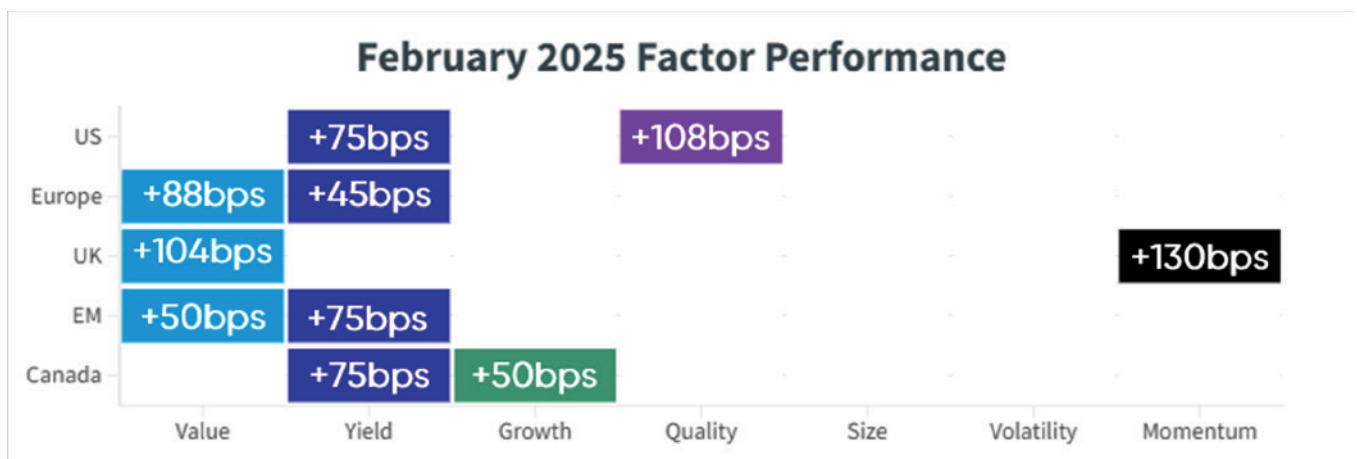
Geopolitical tensions in the Euro Area also intensified as President Trump adopted a more conciliatory approach toward Russia regarding the Ukraine conflict, straining the U.S.-Europe alliance and disrupting traditional diplomatic relations.

Crude oil prices dropped to \$70 per barrel down from \$73 from previous month.

Gold prices rose at the end of Feb to \$2,863/ troy ounce at month-end before rising to \$2,935/ troy ounce in March. In February, Bitcoin dropped below the \$90,000 mark. The cryptocurrency started the year strong, driven by optimism about potential positive changes the new Trump administration could bring. However, February saw a significant decline in the asset class's value.

Factor Summary

- ▶ **US Equities:** Yield and Quality outperformed.
- ▶ **European Equities:** Value and Yield outperformed.
- ▶ **UK Equities:** Value and Momentum outperformed.
- ▶ **Emerging Markets Equities:** Value and Yield outperformed.
- ▶ **Canadian Equities:** Yield and Growth outperformed.



US Equities

After a strong start, U.S. equities fell to an underperformance of -1.7% in February. Yield and Quality equities drove the region's outperformance, exceeding the market by 75 bps and 108 bps, respectively. Value equities closely followed, outpacing the market by 34 bps, with all value subfactors outperforming except for the book-to-price subfactor. The market reflected a complete turnaround from the previous month, with Yield, Quality, and Size outperforming the broader market, in contrast to the prior month, while Growth, Momentum, and Volatility underperformed.

Return on equity and net profit margin were the key factors driving stronger equity performance in February. As risk-averse sentiment dominated the market, driven by several bearish narratives and uncertainty surrounding Trump's trade, immigration, tax, and Ukraine policies, the momentum and volatility subfactors pulled performance into negative territory. A decline in equity performance occurred as consumers became concerned about rising inflation and the effects of Trump's tariffs.

The U.S. inflation rate eased to 2.8% in February from 3% in January. The unemployment rate rose to 4.1% in February, up from 4.0% the previous month. 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 the factory sector in around two years. Manufacturing production in the United States grew by 1% year-on-year in January 2025, compared to a 0.1% decline in the previous period.

Stocks with high shareholder yield contributed to the performance of U.S. equities in February, including infotech company Apple Inc. (2.6% in Feb) and financials company Visa Incorp (6.3% in Feb). Additionally, companies with high daily ROE, including infotech company NVIDIA Corp (+4 % in Feb), health care company Eli Lilly and Company (13.7% in Feb), and financials company Mastercard Inc. (3.8% in Feb), also contributed to the outperformance.

Feb 2025 US Factor Performance

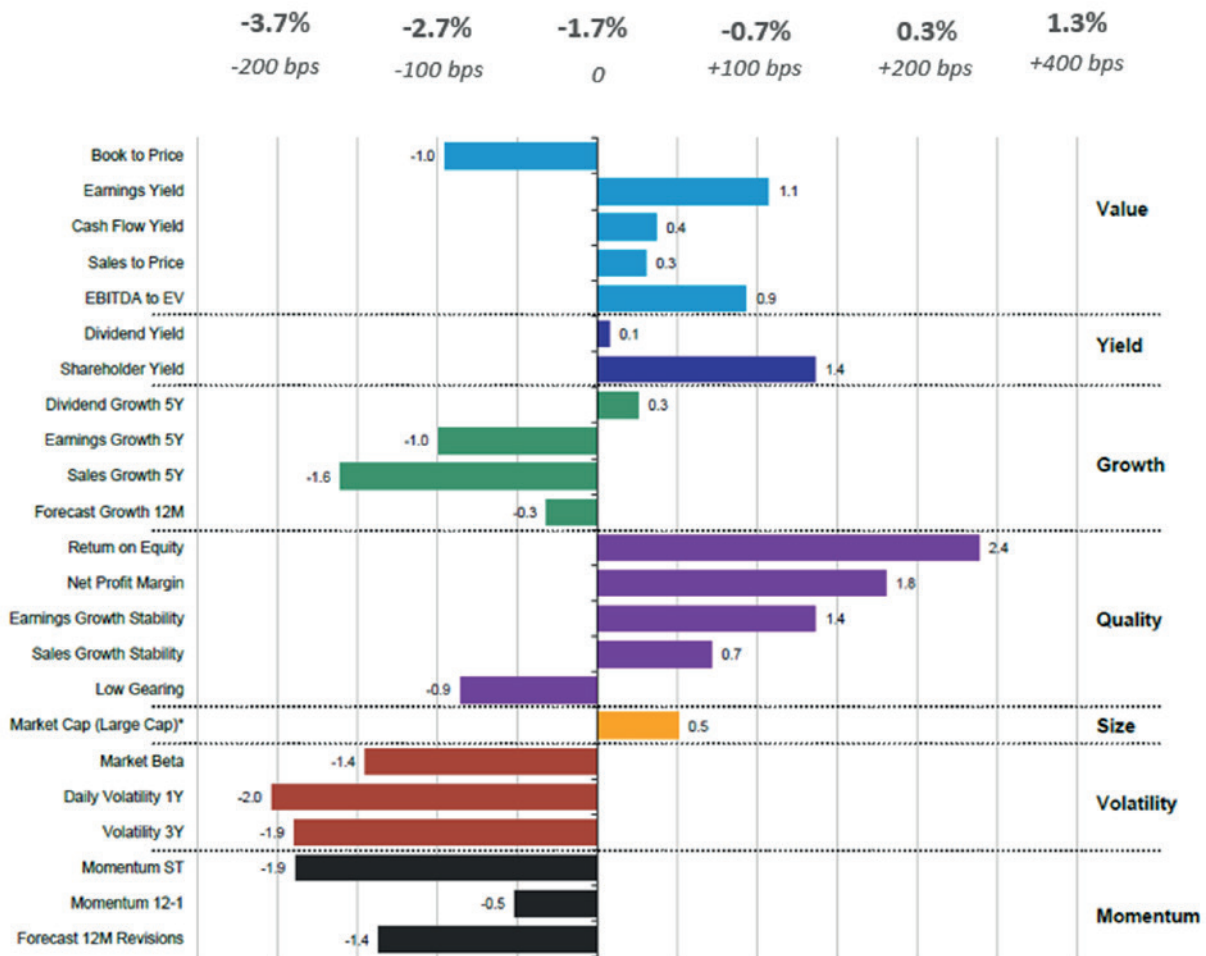


Figure 1: Feb 2025 US Factor Performance (sector adjusted)

Source: Confluence Style Analytics

European Equities

While its US counterpart underperformed amid tariff announcements, European equities posted an impressive 3.0% return this month. The region's outperformance was primarily driven by Value and Yield stocks, which outperformed by 88 bps and 45 bps, respectively.

The European macroeconomy reflected a gradual growth. Compared to the previous month, Europe saw a reversal in the trends for Value, Yield, and Quality, while Momentum equities maintained their trend, outperforming the market by an average of 23 bps this month.

The annual inflation rate in the Euro Area eased to 2.4% in February 2025, down from 2.5% in January. Meanwhile, the unemployment rate remained unchanged at 6.2% in January 2025. Manufacturing production in the Euro Area fell to -2.4% in December 2024.

Key European stocks with strong net profit margins that outperformed in the month of February include French consumer discretionary company Hermes International (+18% in Feb), German industrials company Siemens AG (+12% in Feb), and French industrials company Schneider Electric Se (14% in Feb). High cashflow yield companies in the Eurozone region which contributed to the outperformance of this region include Spanish financials company Banco Santander (25% in Feb), French financials companies BNP Paribas (11% in Feb) and UniCredit Spa (14% in Feb).

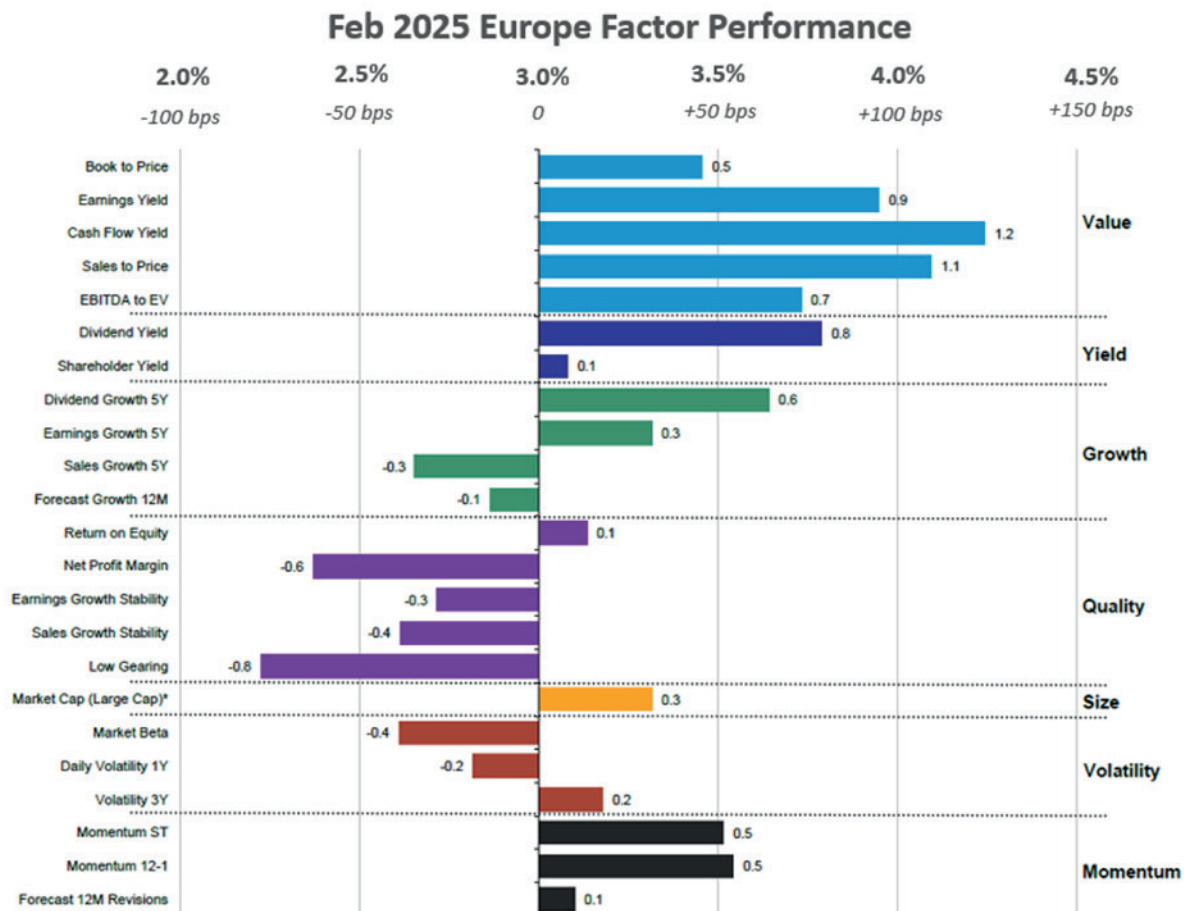


Figure 2: Feb 2025 Europe Factor Performance (country and sector adjusted)

Source: Confluence Style Analytics

UK Equities

Similar to the Eurozone, UK equities outperformed the broader market, but by a narrow margin of 120 bps. The region's outperformance in February was driven by the Value and Momentum subfactors, which outperformed the market largely, exceeding it by 104 bps and 130 bps, respectively.

While Growth stocks remained consistent with the previous month, value, Quality, and Volatility exhibited a reverse trend this month. The underperformance of Quality was primarily driven by the poor performance of Large-cap securities such as consumer staples companies Diageo plc and British American Tobacco and industrials company Relx. As reflected in the performance of the Volatility factor, there was a shift toward higher volatility in investor sentiment this month compared to the previous month.

The annual inflation rate in the UK accelerated to 3.0% in January, from 2.5% in December last year, the highest observed rate since March 2024. Manufacturing production increased by 0.7% month-over-month in December. The United Kingdom's unemployment held steady at 4.4%. The UK was exempt from US tariff threats, contributing to a strengthening of the British sterling this month.

British stocks with strong cashflow yields that outperformed this month include financials company HSBC Holdings (+12% in Feb), industrials company Rolls Royce Holdings (+24% in Feb), and financials company Lloyds Banking Group (19% in Feb).

Stocks with high Momentum 12-1 outperforming the UK market include energy company Shell Plc (10% in Jan), and financials company NatWest Group (12% in Feb).

Feb 2025 UK Factor Performance

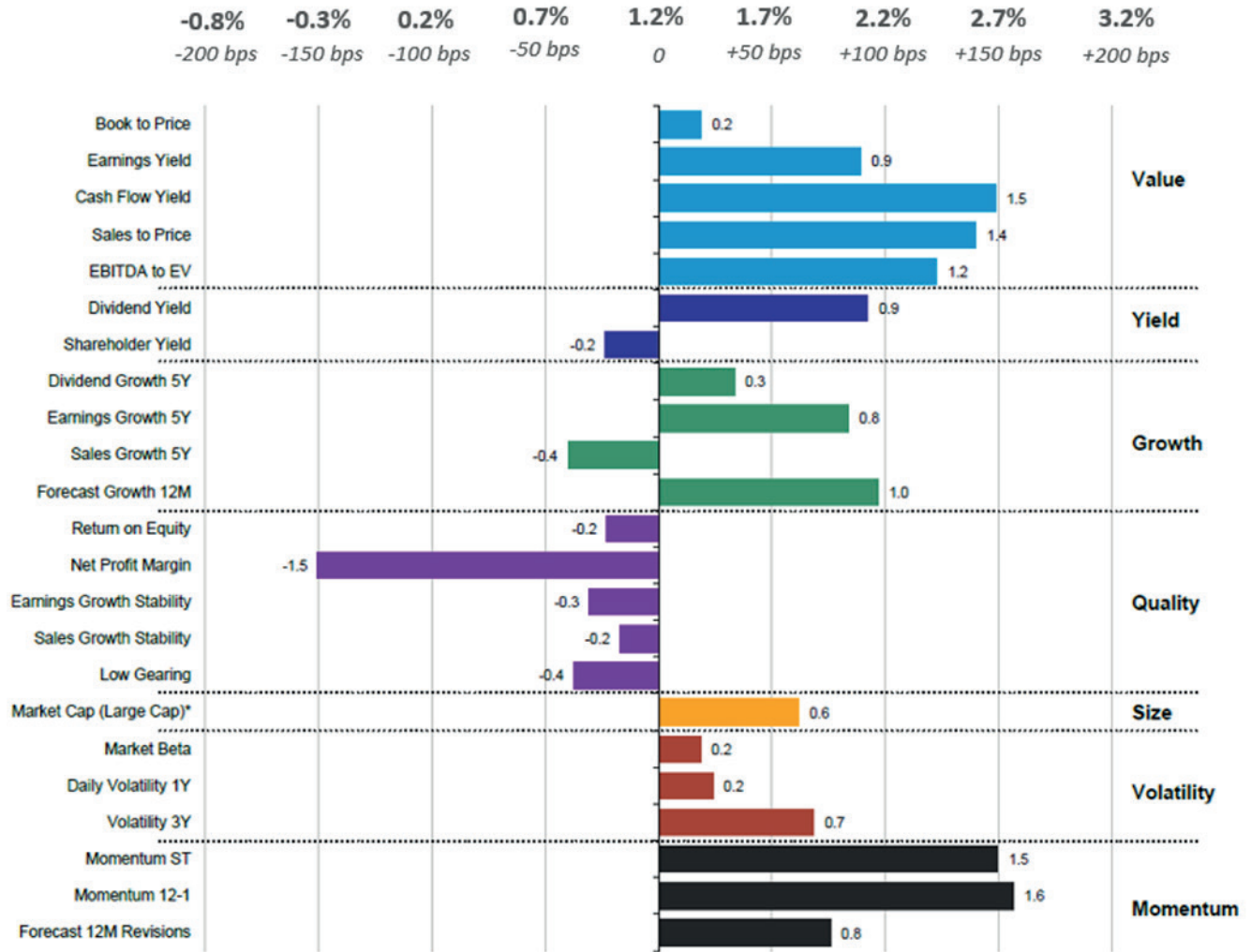


Figure 3: Feb 2025 UK Factor Performance (sector adjusted)

Source: Confluence Style Analytics

Emerging Markets Equities

The factor trend in Emerging Markets favored Value and Yield, outperforming the market by 75 bps and 50 bps, respectively. The region's negative -1.2% performance was primarily driven by Volatility and Momentum subfactors. The Quality subfactors in the region showed mixed performance, with return on equity and net profit margin lagging the market, while the other subfactors outperformed.

The focus on Value and Yield in Emerging Markets suggests a shift in investor sentiment toward more stable, safer investment opportunities, as concerns over trade wars and tariffs from the United States threaten the stability of these markets. As income generation declined and growth slowed, securities with a high return on equity within the Quality subfactors contributed to the region's underperformance in February.

India's annual inflation rate eased to 4.31% in Feb 2025, from 5.22% in the previous month. India's unemployment rate eased to 8.20% this month, down from 8.30% in January. Mexico's annual inflation rate edged up to 3.77% compared to 3.59 in the previous month, while its unemployment rate fell to 2.7% in January, down from 2.9%. China's year-on-year inflation rate dropped to 0.7% in Feb 2025 from 0.5% in the previous month.

Emerging Markets equities that outperformed in the month of Feb, captured by the book-to-price subfactor, include a Chinese consumer discretionary company, Alibaba Group Holdings (+44% in Feb), and Chinese communication services company China Mobile Ltd (+4.1 % in Feb). Companies with high dividend yield include Chinese consumer staples company Kweichow Moutai Co Ltd (+4.3 % in Feb) and Chinese communication services company China Unicom Hong Kong Ltd (33% in Feb).

Feb 2025 Emerging Markets Factor Performance

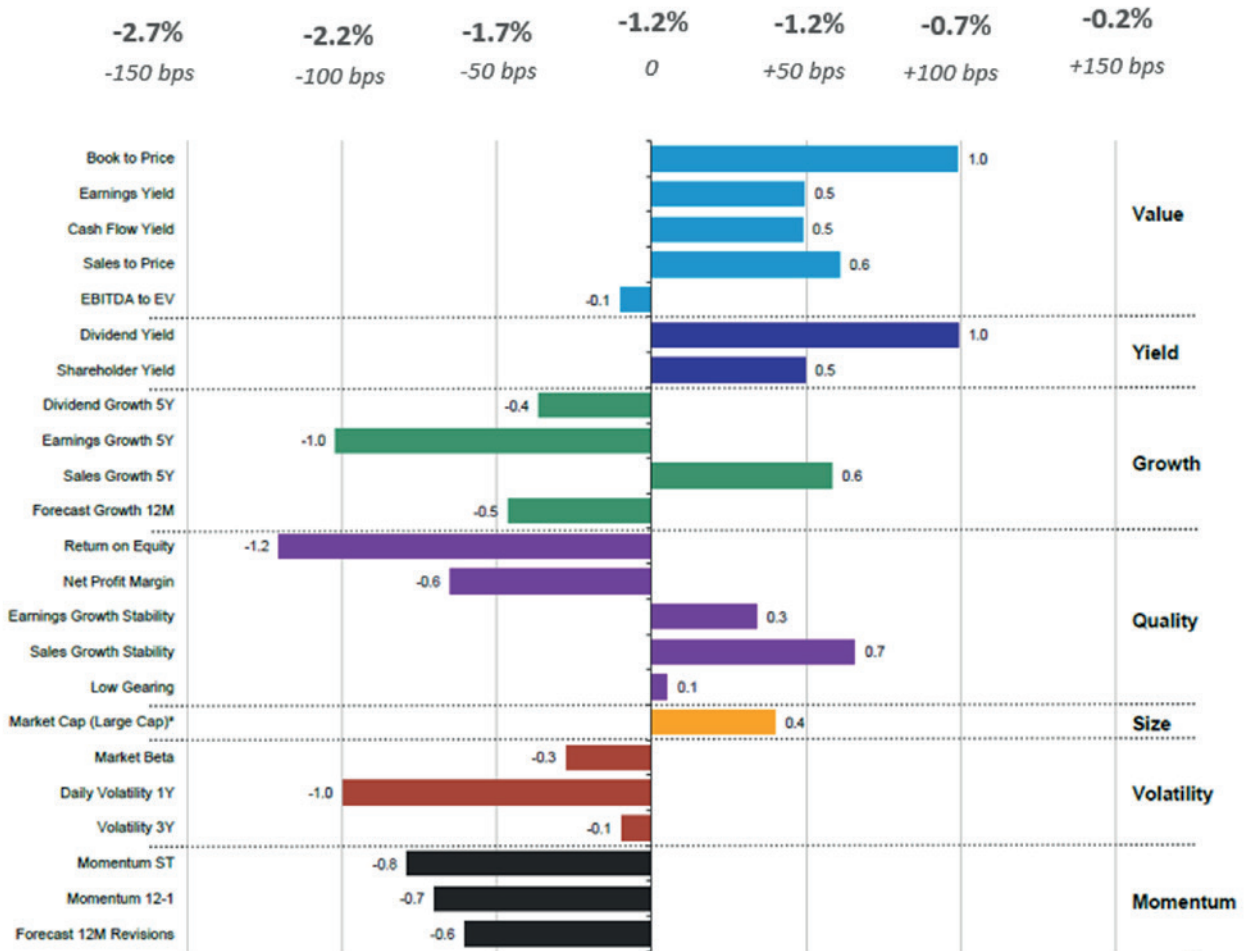


Figure 4: Feb 2025 Emerging Factor Performance (country and sector adjusted)
 Source: Confluence Style Analytics

Canadian Equities

The factor performance trend in Canada favored Yield and Growth subfactors. Among the Yield subfactors, securities with a high dividend yield outperformed the market by 130 bps, similar to what was observed in the Eurozone and Emerging Markets. Likewise, within Growth, companies with dividend growth 5Y and earnings growth 5Y delivered a 70 bps and 60 bps premium, respectively. The Quality subfactors also performed well in February, with all subfactors outperforming, except for the return on equity subfactor, which underperformed the market by 80 basis points.

After the United States' initial tariff announcement on Canada in early February, volatility in the region's market spiked, prompting a shift in investor bias from a volatile market environment to one focused on stable returns, with investments in companies with high dividend yield and Quality stocks.

A shift was also observed from a mixed Growth performance in the previous month to Growth outperforming the market by an average of 50bps in Feb, alongside a decline in the performance of Momentum stocks compared to the previous month, led by a negative performance of high momentum stocks including Brookfield Corp, Royal Bank of Canada and Shopify.

Canada's annual inflation rate inched to 1.9% in January from 1.8% in the previous month. While the unemployment rate in February remained unchanged at 6.6% from the previous month, labour force participation decreased to 65.3% from 65.6% in February.

Stocks with a strong dividend yield in the region include financials company Toronto-Dominion Bank (+5 % in Feb), industrials company Thomson Reuters Corp (+7% in Feb), and infotech company Constellation Software Inc. (5.5% in Feb). Earnings Growth Stability equities that outperformed in the region include financials company Great-West Lifeco Inc (15% in Feb) and materials company Wheaton Precious Metals (11% in Feb).

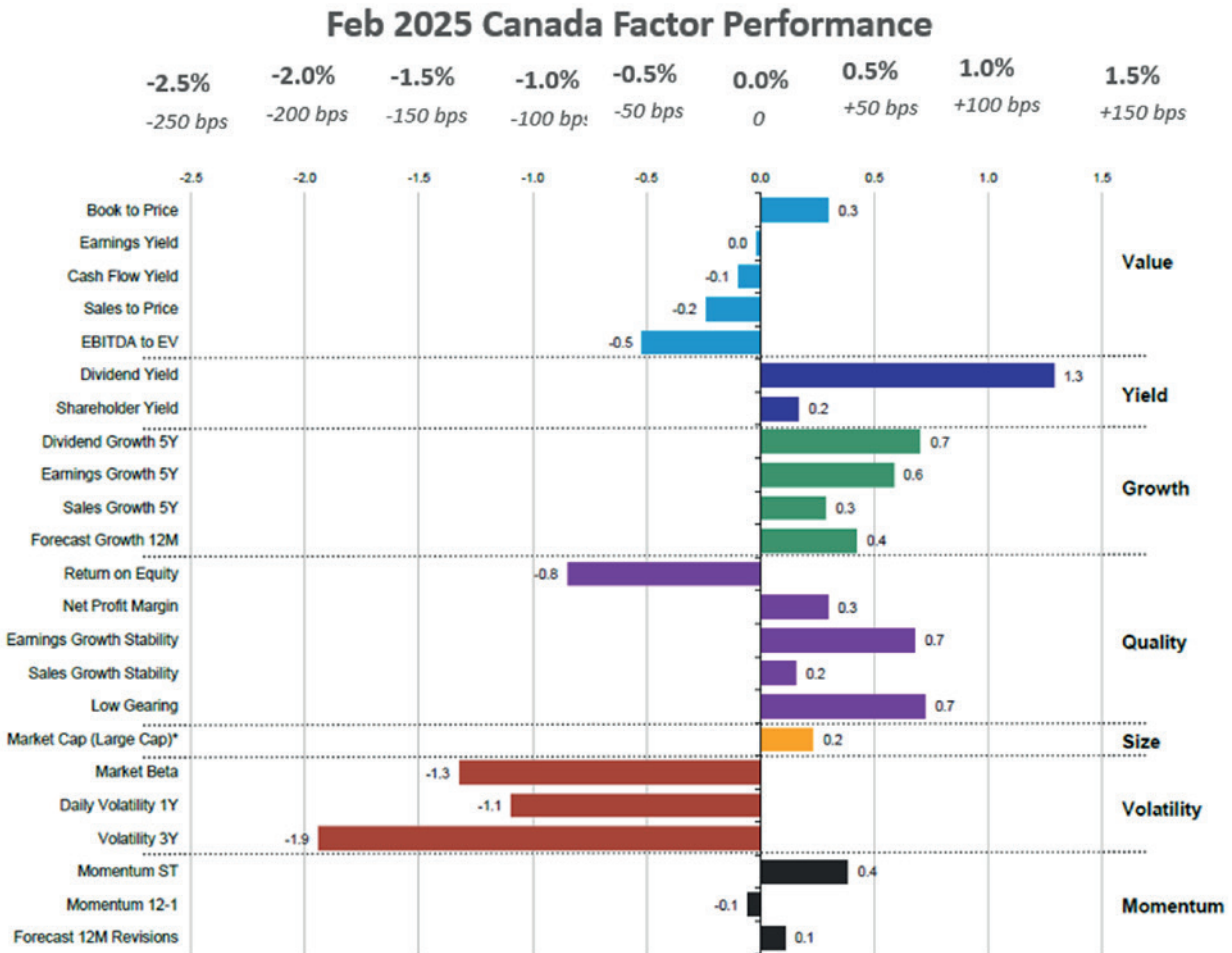


Figure 5: Feb 2025 Canada Factor Performance (sector adjusted)
 Source: Confluence Style Analytics

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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