

Confluence Style Analytics

May 2025

# Factor Performance Analysis

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Rising volatility amid tariff uncertainty

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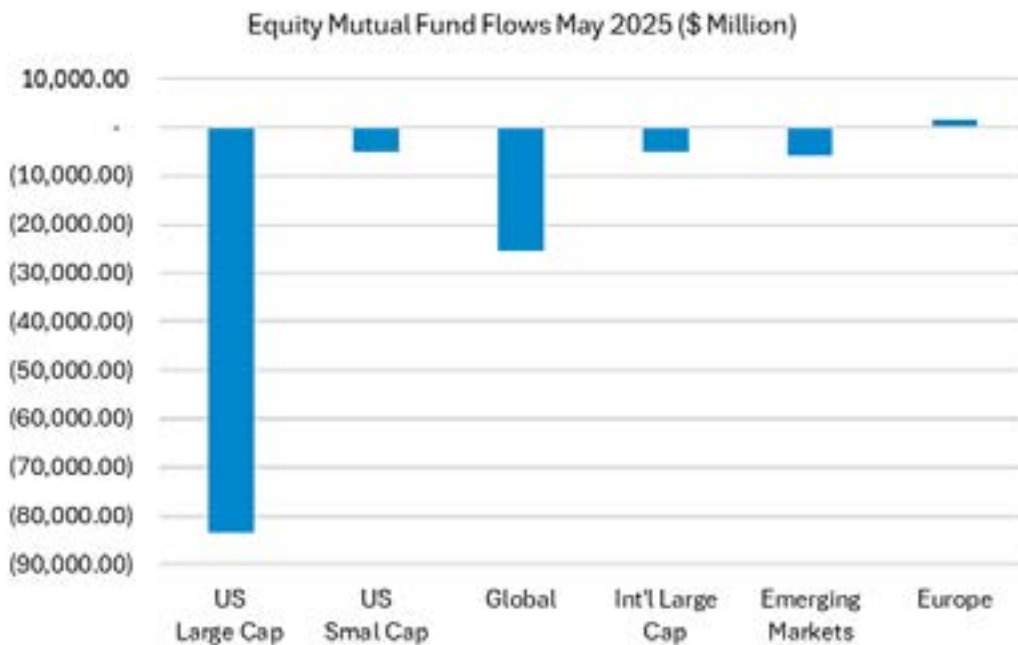
## Market Background

Global markets continued their rebound in May, as consumer sentiment improved and trade tensions showed signs of easing during the period. Despite this progress, the broader economic outlook remains uncertain. Ongoing trade negotiations offer some hope, but the threat of higher tariffs looms if agreements aren't reached.

While equity markets posted gains during the month, investor caution grew amid concerns about stretched valuations following sharp rallies. This caution was evident in reduced net inflows to equity mutual funds globally. Rising global volatility—driven by geopolitical risks, inflationary pressures, and the potential for escalating tariffs—fueled a risk-off sentiment. As a result, investors adopted a more defensive stance, pulling back from lump-sum equity investments and shifting toward safer or more diversified assets. Notably, outflows from U.S. equity funds increased, with capital being reallocated to European markets amid concerns over U.S. fiscal policy, rising debt levels, and tariff-related risks.

Crude oil prices rose above \$63 per barrel, up from \$59 at the end of the previous month. The prices continue to rise, reaching \$66 per barrel in the first week of June, driven by optimism surrounding U.S.-China trade negotiations.

Gold rose above \$3,330/ ounce in the first week of June, as investors turned to the traditional safe-haven asset amid rising uncertainty and a weakening U.S. dollar. As of early May, the cryptocurrency had gained approximately 15% month-over-month, with technical analysis signalling a bullish trend. The cryptocurrency experienced significant price fluctuations throughout May but ultimately delivered an outstanding overall performance for the month.



**Figure 1:** May 2025 Mutual Fund Flows data

Source: Confluence Style Analytics

## Factor Summary

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



**Figure 2:** Relative factor performance (country and sector adjusted). The arithmetic average of the subfactor's relative market return for each factor category and region.

Source: Confluence Style Analytics

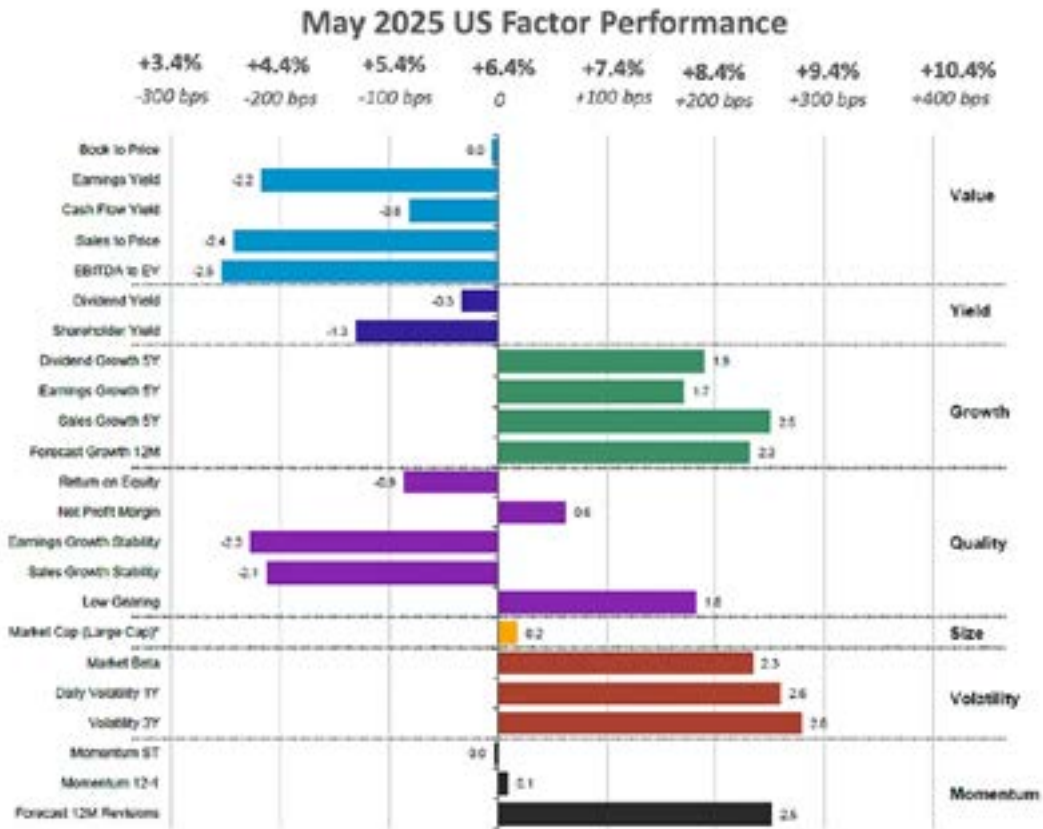
## US Equities

The U.S. equity market rebounded sharply in May, posting a strong 6.4% return following April's negative performance. This recovery was driven by positive developments in trade negotiations and robust corporate earnings, particularly from large-cap companies, exceeding historical averages. The underlying U.S. economic data remained solid despite ongoing policy uncertainty and tariff concerns, with employment levels staying strong.

Factor trends in the region remained largely consistent with the previous month, with Growth and Volatility continuing to lead market performance. Although Momentum was not the top contributor to overall outperformance, the Forecast 12M Revisions factor stood out, delivering a 250bps gain, reflecting increased analyst optimism around corporate earnings. This surge reflected growing analyst optimism around corporate earnings, which renewed confidence in the profitability outlook for U.S. companies. After a sharp selloff in April, US equities rebounded strongly in May. The rally was broad-based, but growth stocks led the way, outperforming value stocks by a wide margin.

The U.S. inflation rate rose for the first time in four months to 2.4% in May from 2.3% in April. The unemployment rate held steady at 4.2% in May 2025. 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. U.S. manufacturing output declined by 0.4% in April 2025, falling short of market expectations for a 0.2% drop. The decline in the U.S. dollar observed in May can be attributed to the Trump administration's proposed tariffs, trade conflicts, and the "Big Beautiful Bill" tax cuts, which are expected to increase the federal deficit by trillions of dollars significantly.

Stocks with strong Forecast 12M revisions that were key contributors to U.S. equity performance in May include the info tech company NVIDIA Corp (24% in May). Additionally, Broadcom Inc. (26% in May) and consumer discretionary company Tesla Inc. (23% in May). Forecast 12M growth companies that also contributed to the returns this month include the info tech company Amazon (+11% in May), and the info tech company Palantir Technologies Inc (11% in May).



**Figure 3:** May 2025 US Factor Performance (sector adjusted)

Source: Confluence Style Analytics

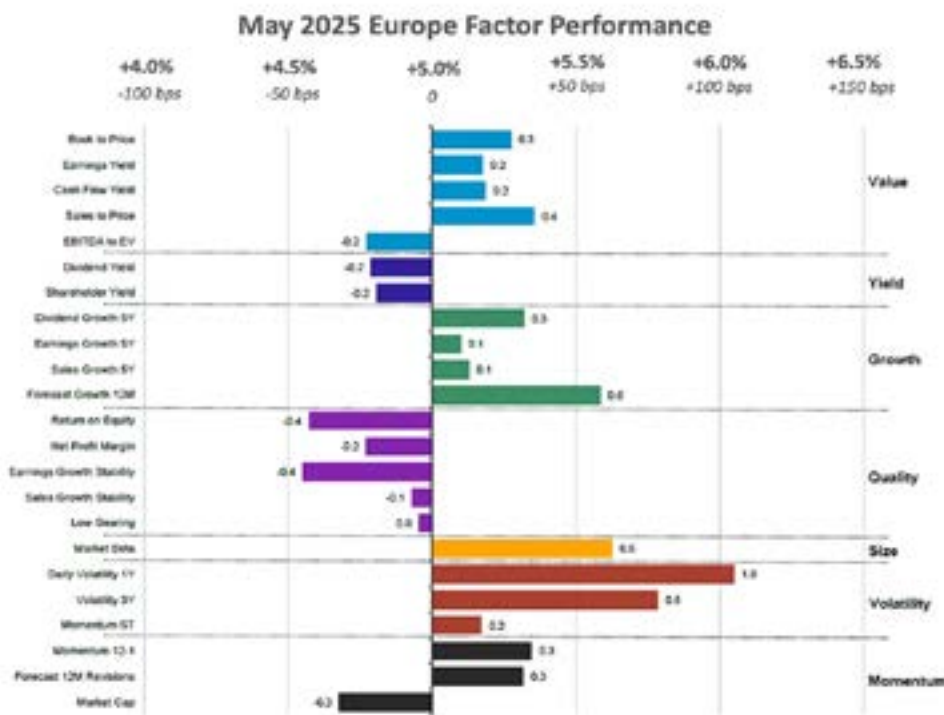
## European Equities

This month, a reversal was observed in European equity sub-factors, with Value outperforming and Momentum underperforming, contrasting with the previous month's trend. Volatility sub-factors led regional performance, outperforming by 67bps. The strong performance across the region was also largely supported by Large-cap companies that reported solid earnings, particularly in sectors that benefited from the economic environment, such as industrials and financials. Despite recent gains, European Large-caps continued to trade at a discount relative to their U.S. counterparts, making them attractive to domestic and international investors seeking value and diversification. This valuation gap encouraged inflows into Large-cap stocks. Large-cap companies that led the region's performance include the French consumer discretionary company Hermes International and the IT company SAP SE.

In May, tariffs led to downgraded growth forecasts, reduced exports, and heightened market volatility across the Eurozone. However, after a sharp drop in investor confidence in April, sentiment began to stabilize in May, helped by the EU's cautious response. A delay in implementing the tariffs alleviated immediate concerns about a recession.

The Eurozone consumer price inflation eased to 1.9% year-on-year in May 2025, down from 2.2% in April. The unemployment rate in the Euro Area edged down to 6.2% in April 2025, down from 6.3% in March. Manufacturing Production in the Euro Area increased 3.8% in March of 2025.

Key European stocks with strong daily Volatility 1Y that outperformed in the month of February include French industrials company Schneider Electric (+10% in May), Spanish financials company Banco Santander (+14% in Feb), and German industrials company Rheinmetall AG (26% in May). High earnings growth 5Y companies in the Eurozone region, which contributed to the outperformance of this region, include French industrials company Safran (13% in May) and Italian financials companies UniCredit Spa (11% in May).



**Figure 4:** May 2025 Europe Factor Performance (country and sector adjusted)  
 Source: Confluence Style Analytics

## UK Equities

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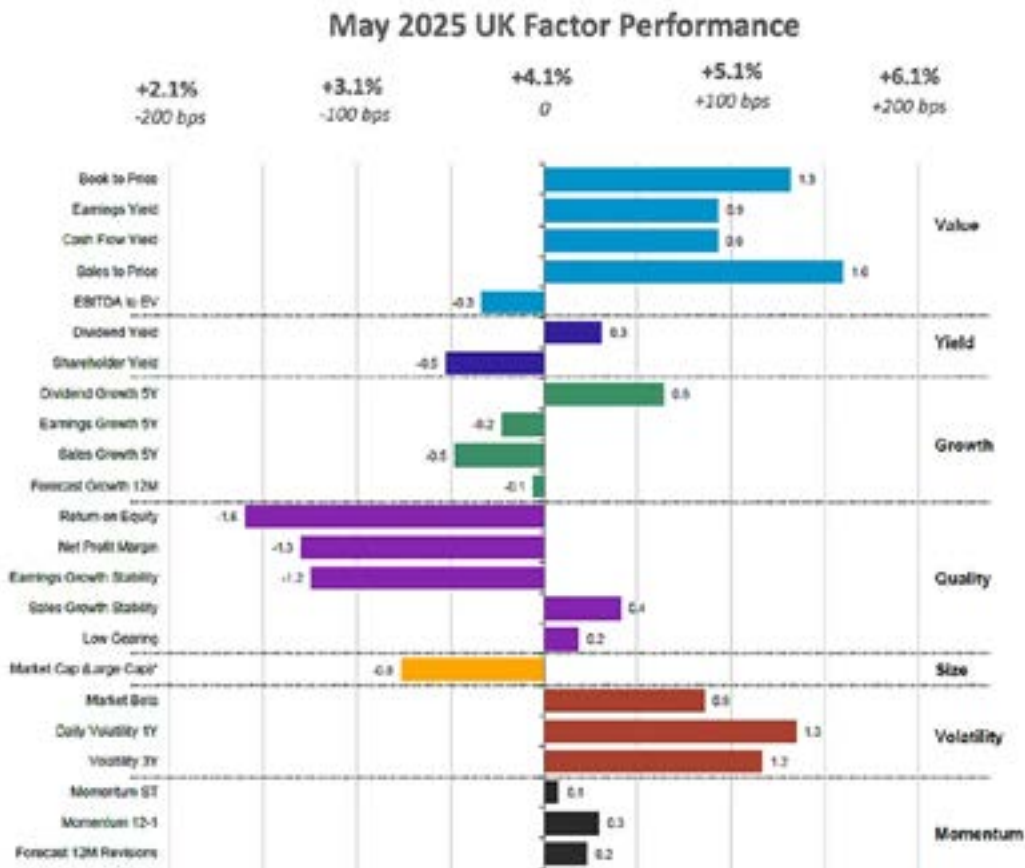
Following the de-escalation of tariffs in May, UK equities saw a strong performance, rising by 4.1% compared to a negative return of -0.2% in April. Investor sentiment in the UK shifted notably towards Value stocks, with the Value factor outperforming the broader region by an average of 88bps. Meanwhile, Volatility and Momentum factors continued their positive trend from the previous month. Growth and Yield factors delivered mixed results, while Quality and Size emerged as the region's primary underperformers.

The Value subfactor sales-to-price outperformed the market following the market volatility and declines in April, primarily driven by weakness in trade and global economic uncertainty. Investors shifted their focus toward companies with strong underlying business activity, as reflected in high sales-to-price ratios. A higher sales-to-price ratio often signals undervaluation. As many UK stocks were trading at historically low levels relative to their global counterparts, companies with strong sales performance were viewed as potentially undervalued. Firms with solid sales figures are generally seen as more resilient during periods of economic downturn.

The notable intra-month fluctuations also led to a sharp but brief decline in UK equities, followed by a swift rebound as investors adjusted to the changing landscape. The heightened volatility boosted interest in stocks and strategies known for their resilience during periods of market turbulence, resulting in an outperformance of stocks with high Volatility.

The annual inflation rate in the UK jumped to 3.5% in April, from 2.6% in March. The UK unemployment rate has risen to 4.6%, marking its highest level in three years. The United Kingdom's unemployment held steady at 4.4%. Manufacturing production in the UK dropped 0.8% month over month in March 2025, reversing an upwardly revised 2.4% increase in the previous month.

British stocks with high daily Volatility 1Y include industrial company Rolls-Royce Holdings (16% in May), financial company Barclays Plc (11% in May), and NatWest Group (11% in May). Companies with high sales-to-price ratios that contributed to the region's performance this month include Industrial company Bae Systems Plc (11% in May) and financial company HSBC Holdings (7% in May).



**Figure 5:** May 2025 UK Factor Performance (sector adjusted)

Source: Confluence Style Analytics

## Emerging Markets Equities

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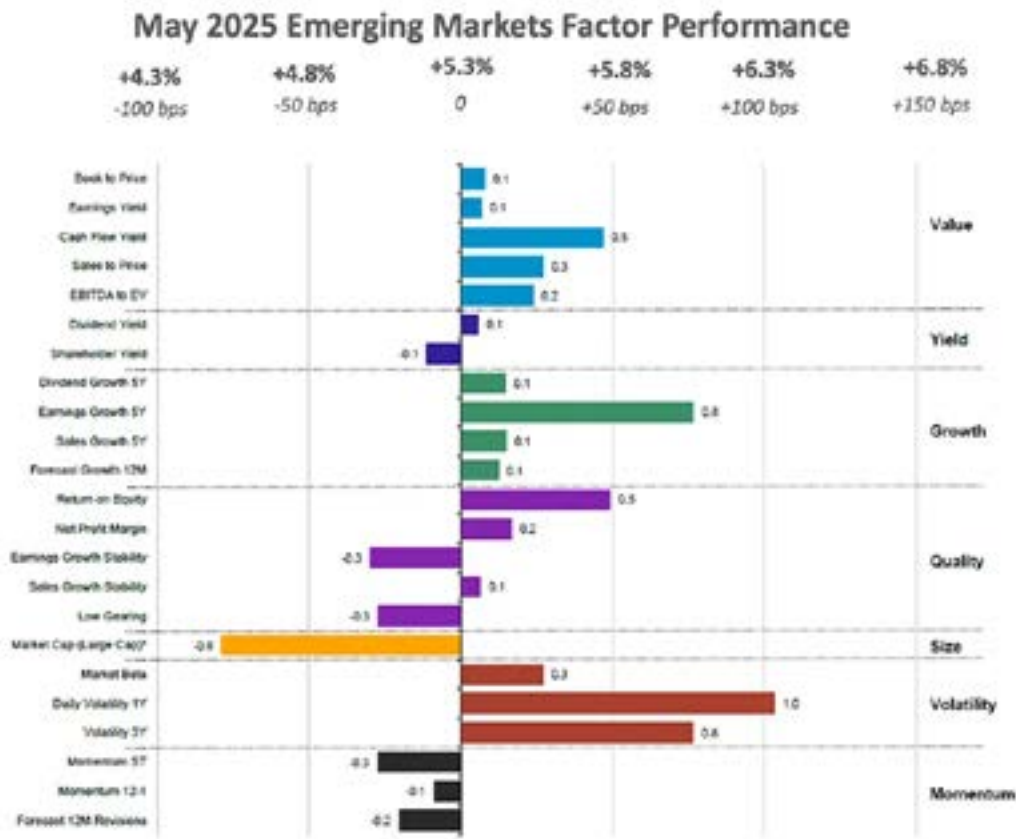
Emerging markets posted positive returns in May, with Volatility and Growth factors outperforming those in European markets. This strength was primarily driven by the Volatility and Growth factors. Although Value was not a leading contributor, it did show a notable trend reversal from last month's negative performance. Meanwhile, the underperformance of the Size factor—particularly large-cap companies—persisted in the region.

Emerging market performance in May 2025 was driven by a combination of macroeconomic shifts and easing trade tensions, with Growth-oriented companies in these regions particularly benefiting. The weakening of the US dollar made emerging market assets more appealing to global investors and boosted the competitiveness of their exports. Valuations in emerging markets remained significantly attractive compared to developed markets, further enhancing their appeal.

Although some Large-cap companies performed well in the region, the broader large-cap segment was weighed down by weakness in China, where tariff-related global economic pressures impacted major firms.

India's annual inflation rate eased to 3.16% in April 2025, down from 3.34% in the previous month. China's annual inflation rate decreased 0.2% in May, and the unemployment rate edged down to 5.1% in April. Brazil's annual inflation rate slowed to 5.32% in May 2025 from 5.53% in April. The annual inflation rate in Mexico rose to 4.42% in May 2025 from 3.93% in the previous month.

Emerging Markets equities that outperformed in the month of May, captured by the daily Volatility 1Y subfactor, include Indian financials company Life Insurance Corp of India (+18% in May); Chinese communication services company NestEase Inc (+16% in May) and Taiwanese info tech company Hon Hai Precision Industry Co Ltd (18% in May). Companies with high earnings growth 5Y include Taiwanese info tech company Taiwan Semiconductor Manufacturing Co., Ltd. (+14% in May), Chinese communication services company Tencent Holdings Ltd (4% in May).



**Figure 6:** May 2025 Emerging Factor Performance (country and sector adjusted)  
 Source: Confluence Style Analytics

## Canadian Equities

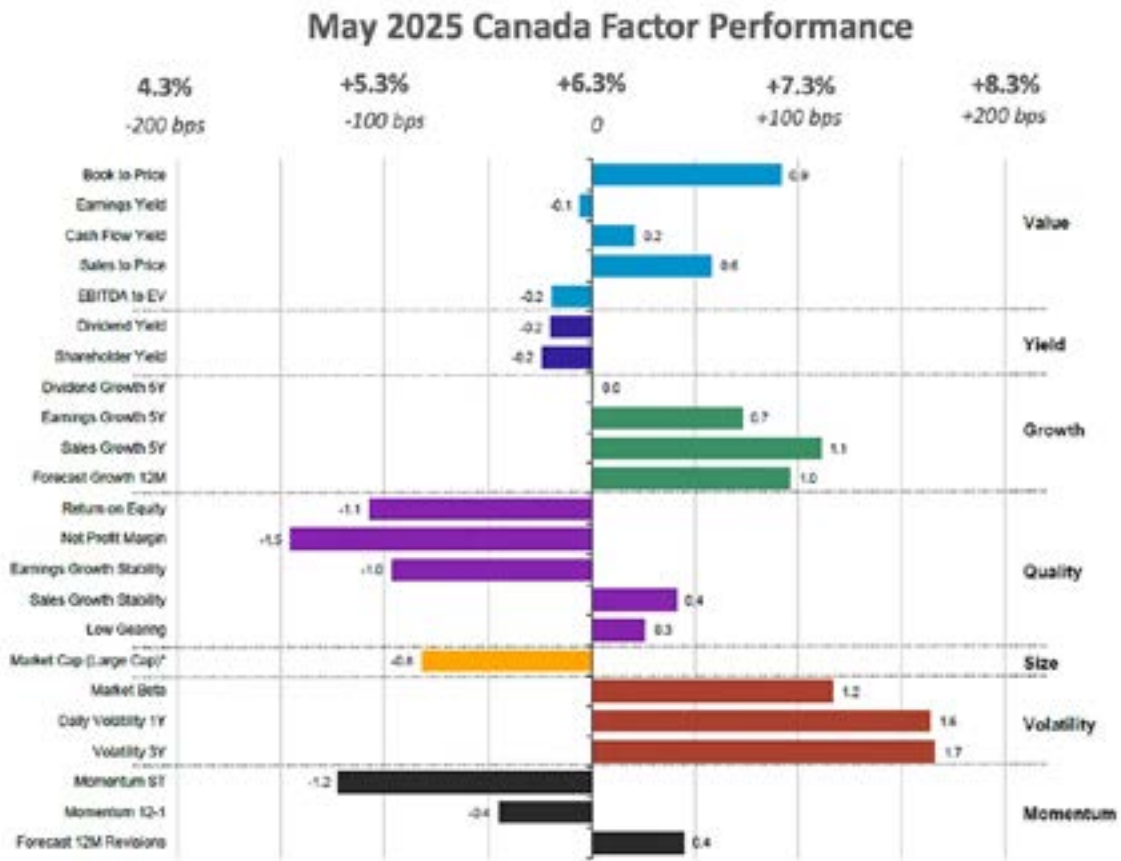
The uncertainty of trade tariffs announced by the U.S. has shaken businesses and consumer confidence in Canada. Despite these trade tensions, Canadian equities delivered a positive return of 6.3% in May, exceeding the performance recorded in the previous month. This strong performance was largely driven by Volatility subfactors, with daily Volatility and 3-year Volatility outperforming the region by 160bps and 170bps, respectively. Notably, info tech and financial companies like Shopify and Bank of Montreal (BMO) demonstrated elevated daily Volatility levels over 1 year. As a leading info tech firm, Shopify tends to be more volatile due to its high growth prospects, sensitivity to interest rates, and rapidly shifting investor sentiment. In contrast, BMO's heightened daily Volatility was primarily influenced by broader economic factors such as interest rate fluctuations, credit market dynamics, and evolving expectations for economic growth.

Global economic uncertainties, coupled with domestic developments in Canada, impacted the equity market and prompted investors to pursue higher returns through more Volatile stocks. A recovery in consumer spending supported companies with strong growth profiles, resulting in the Growth factor outperforming the broader market by 70 basis points, closely trailing the Volatility factor.

The region experienced a notable shift in factor trends compared to the previous month. Companies with strong Quality and Momentum, which outperformed in April, reversed course and underperformed this month. Concerns about a slowing economy and the impact of U.S. tariffs on Canadian exports led to increased market uncertainty, leading to a shift in allocations toward Value-oriented stocks, as reflected in relative factor performance.

Canada's annual inflation rate edged down to 1.7% in April from 2.3% in March, mainly due to the removal of the federal consumer carbon tax, which shaved 0.6 percentage points off the overall rate. Amid escalating trade tensions between the U.S. and Canada, the unemployment rate rose to 7% in May—the highest level in four years. The Ivey Purchasing Managers Index fell to 48.9 in May 2025, indicating a contraction in economic activity.

Stocks with a Volatility 3Y in the region include financial companies like CIBC (+8 % in May), Manulife Financial Corp. (+5% in May), and National Bank of Canada (12% in May).



**Figure 7:** May 2025 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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