



Quarterly Factor Overview

July 2021

This quarterly note aims to complement our monthly factor snapshot by providing further insight of most recent equity factor developments. It focuses on three aspects in this regard: investment outcomes, fundamentals and factor dynamics. Factors portrayed hereafter are our proprietary equity factors, which are also the building blocks of Amundi’s multifactor portfolio construction processes.

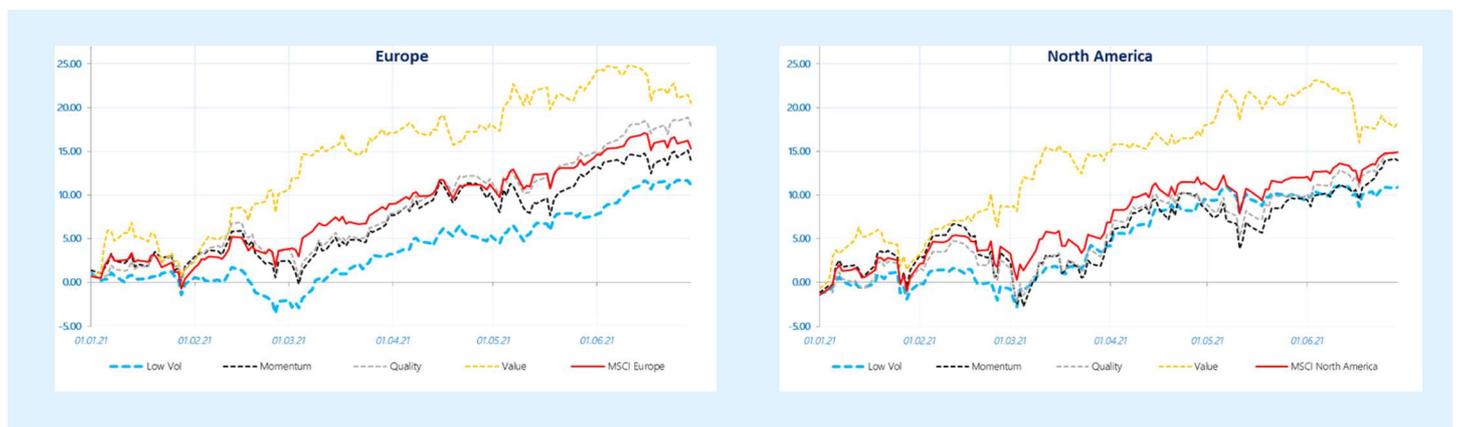
Key takeaways

- The YTD risk-adjusted returns profile of Value continues to improve.
- Quality still present the best ESG profile “beating the benchmarks”.
- Quality becomes more expensive while Momentum presents lower profitability figures in North America. Value still provides the most attractive dividend yield.
- Value has a positive exposure to economic recovery. However, it is expected to underperform under scenarios where consumers would spend more time and money at home (ex. lockdowns). Momentum stocks appeared to be the most favored by US retail investors.
- Low Volatility has a positive exposure to the “stay at home” thematic, while it shows a negative exposure to European economic recovery from COVID 19 crisis.
- Momentum and Quality still share a comparable exposure to US market concentration.

Main investment outcomes

Factors performance patterns over the last quarter denote a slowdown of the Value/Cyclicals rally in favor of Quality. Value is still however the leading factor of the quarter. Its performance has been mainly driven by Energy, Materials and Financials. Non-cyclical sectors, including Utilities, Health Care and Consumer staples have dramatically underperformed under the pressure of inflation concerns and uncertainties about interest rates rise in the US. This has contributed to the severe underperformance of the Low Volatility factor over the quarter.

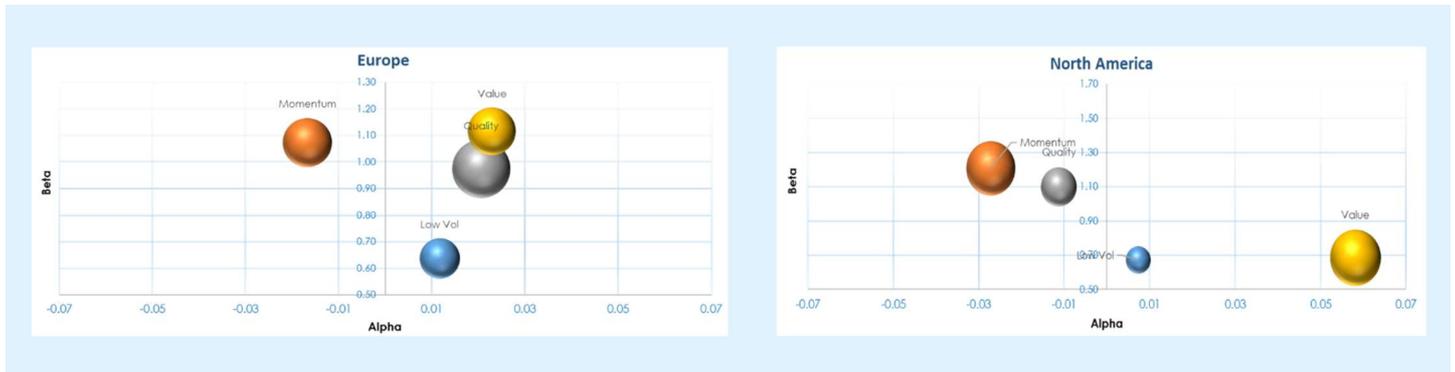
Figure 1: Factor return



Source: Amundi analysis based on Factset data as of 30/06/2021.

The risk-adjusted returns view shows that Value has the best profile over the same period. The factor has delivered positive alphas. Interestingly, it displays a more defensive beta in North America. Momentum and Quality present less attractive risk-adjusted return profiles in North America in particular. Low Volatility has the most defensive beta but delivered poor alphas over the period.

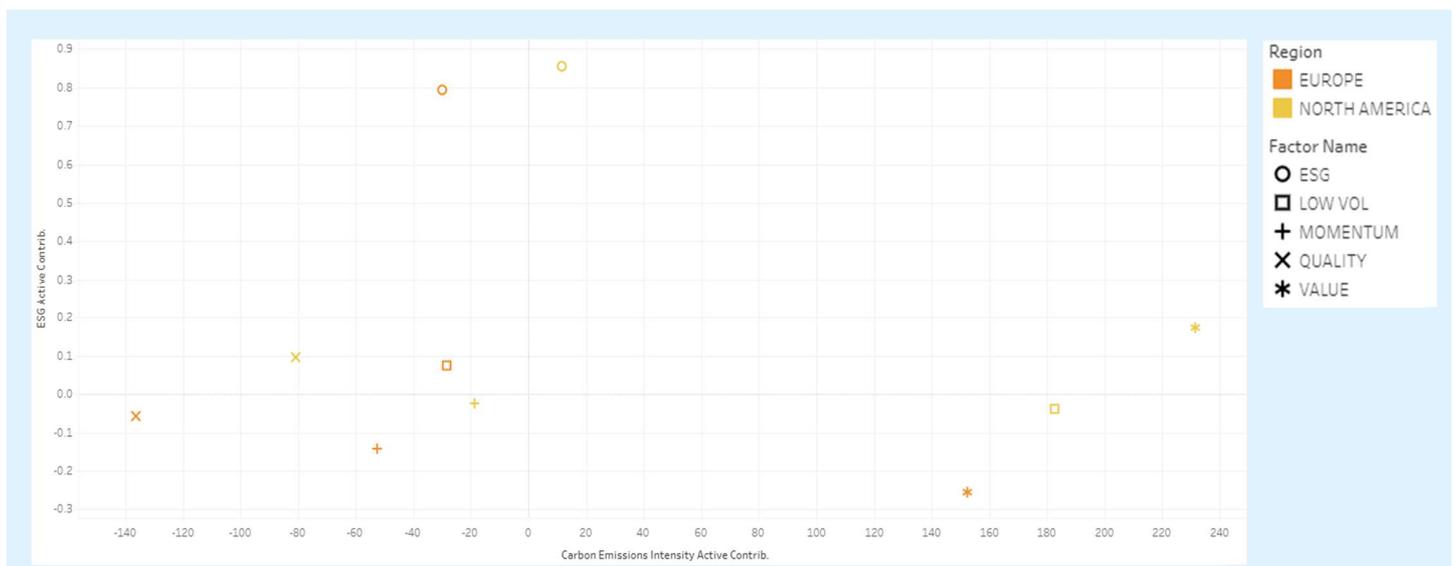
Figure 2: Factor risk-adjusted return



Source: Amundi analysis based on Factset data as of 30/06/2021. The size of the bubbles corresponds to the t-statistic of the alpha. The bigger the bubble the more statistically significant the alpha. The factor alpha and beta are estimated based on a regression analysis applied to factor daily returns and to the relevant MSCI benchmark returns over the last 6-month period.

The extra-financial profiles of factors are quite comparable in both regions except for Low Volatility. The factor tends to be highly exposed to carbon risk in North America. Quality beats the benchmarks mainly on the carbon risk front and, therefore, still has the best profile among all factors. Momentum profile has slightly deteriorated compared to the previous quarters due to a decreasing exposure to Information Tech companies. Value is the factor with the worst profile. This is due to its significant exposure to Energy companies, especially in the US.

Figure 3: Factor ESG characteristics



Source: Amundi analysis based on TrueCost data and Amundi ESG scores as of 30/06/2021. Carbon emission intensity corresponds to tons of CO2 emissions in scopes 1, 2 and 3 scaled by million USD sales.

Fundamentals

The Quality factor is still the most profitable but expensive factor in that it starts to present higher level of valuation compared to the benchmarks. Low Volatility has the highest leverage ratios. Despite its recent strong performance, Value still provides more attractive valuation levels particularly in Europe. It also provides the most attractive dividend yield. Momentum starts to diverge from Quality in terms of fundamentals structure and presents lower profitability figures.

Figure 4: Factor forecasted fundamentals

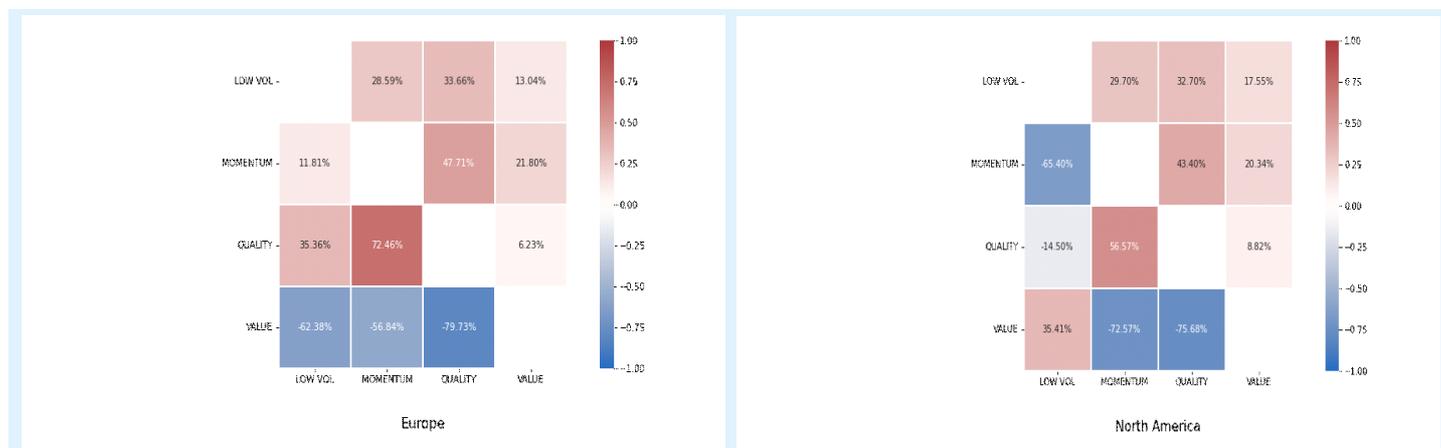


Source: Amundi analysis based on Factset data as of 30/06/2020.

What tied factors together?

Globally, factors present the lowest levels of excess returns correlations in North America, which is more attractive from a diversification stand point. Correlation levels continue to decrease in Europe compared to the previous quarters. Quality and Momentum, are still closely connected. The factors present a significant level of excess returns correlation but also a high overlap with about 47% of holdings in common. Value still present a significant level of anti-correlation with most factors although the overlap with momentum continue to increase since Q4 2020.

Figure 5: Factors connections

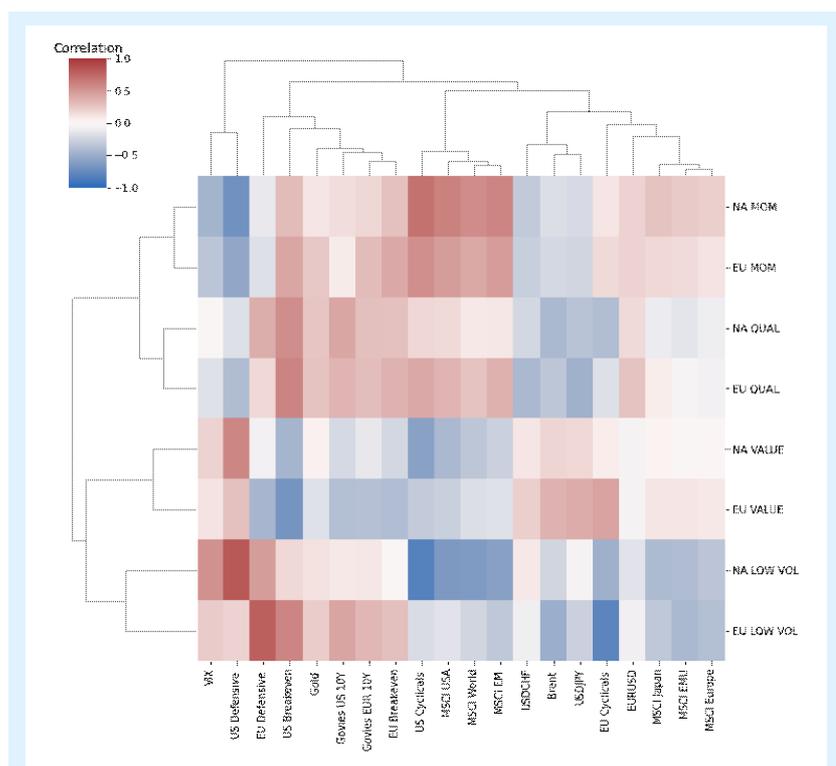


Source: Amundi analysis based on Factset data as of 30/06/2021. Figures above the diagonal are Factor baskets overlaps which denote the proportion of stocks held in common in both factor baskets. The figures below the diagonal are factors' excess returns correlations.

Our Macro Clustering Model (MCM) leads to an additional group this quarter. The first group has a defensive profile. It is comprised of the broad Low Volatility factor. It is mainly linked to non-cyclical and macro drivers including the positive exposure to bonds performance

with a higher stance in Europe than in North America. Value comprises the second cluster, which is driven by cyclical determinants in Europe, with a positive exposure to inflation, bond yields and to the Energy thematic for instance. The third group includes Quality. It is connected to fundamental drivers of the global markets. The last cluster represents Momentum. The Macro profile of the factor has shifted but still close to that of Quality. It has a higher short bias on market volatility and a higher exposure to US cyclicals. Its performance is negatively correlated with bond yields.

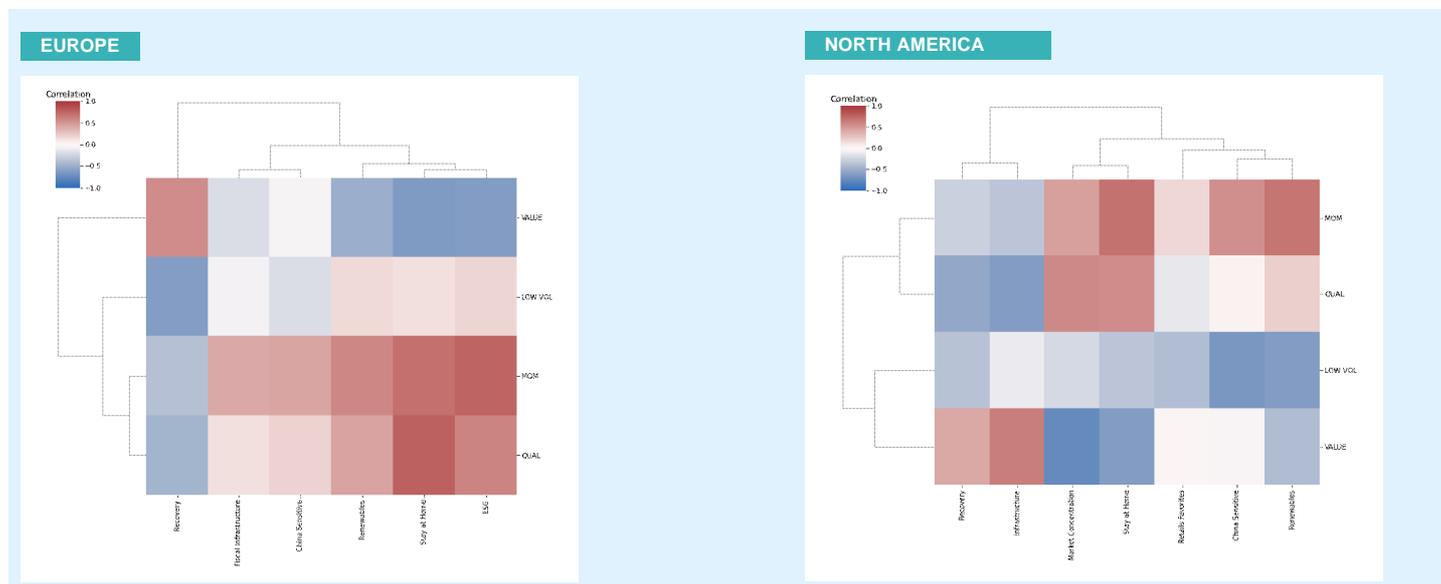
Figure 6: Factors macro correlations clusters



Source: Amundi analysis based on Factset data as of 30/06/2021. The hit map is based on factors' excess returns correlations with the set of macro variables on the horizontal axis. Factors are then clustered in a dendrogram based on those correlations.

Our Thematic Clustering Model (TCM), which aims to identify factor clusters according to their common exposures to the six leading thematics in each region for 2021, leads to 3 clusters in Europe this quarter. The first cluster is comprised of Value, which has a positive exposure to economic recovery and a negative bias towards ESG. Low Volatility represents the second cluster. The factor has positive exposures to ESG and a neutral exposure to the “stay at home” thematic, while it shows a negative exposure to European economic recovery from COVID 19 crisis. The last cluster is comprised of Quality and Momentum. The factors share comparable thematic exposures with Low Volatility except from more pronounced positive exposures to companies that stand to benefit from a transition towards the use of cleaner energy (renewables) and to those that are expected to benefit from the expansion of the Chinese economy (china sensitive). The picture is quite similar in North America although the thematics are slightly different. We can notice for instance that, opposite to Value, Momentum and Quality still share a comparable exposure to market concentration, which is mainly driven by large Tech companies. Momentum stocks tend to be the most favored by retail investors in the region who seem, on the other hand, to overlook Low Volatility stocks.

Figure 7: Thematic map



Source: Amundi analysis based on Factset data as of 30/06/2021. The hit map is based on factors' excess returns correlations with the excess returns of the set of thematic stock baskets featured on the horizontal axis. Factors are then clustered in a dendrogram based on those correlations. Most of thematic stock baskets are provided by Goldman Sachs (GS). They are further described in the appendix.

Wrapping up

The market is still concerned about the persistent of the inflation process, as the related risks rise and expectations adjust. Although central banks believe the current inflation surge is likely to be transitory, those concerned by hyperinflation should be aware that such configuration could be profitable to some equity styles though. If we get back for instance to the high-inflation period of the 1970s, small caps fared better than large caps in terms of performance during this period.

Appendix: Thematic baskets

“Market Concentration”: Cap-weighted basket comprised of the top 10 market caps of the MSCI USA Index.

“China Sensitive”: Top 50 (40 in Europe) stocks with the highest % of revenues exposed to China.

“Recovery”: A GS equally-weighted basket composed of the most Covid-impacted companies. It is comprised of Luxury, Airlines, Travel, Autos and Consumer goods and is expected to outperform as Covid fatalities decrease and mobility improves.

“Stay at Home”: A GS equally-weighted basket that consists of stocks that may benefit from consumers spending more time and money at home. The basket is mainly composed of internet retailers and entertainment companies.

“Renewables”: This is the GS EU Sub-Sector classification.

“Fiscal Infrastructure”: A GS equally-weighted basket of Europe ex-UK stocks with more than 30% revenue from Europe and in sectors which governments have specifically targeted for investment and/or GS economists expect to be targeted: Renewables, Construction & Materials, Industrial machinery, Railroad equipment, Electrical components, Technology stocks exposed to governments, Defense.

“ESG”: A GS equally-weighted basket comprised of companies that matter most to ESG Funds based on ownership and holdings data.

“Retail Favorites”: This is a GS equally-weighted basket that consists of US listed equities that are most popular among retail communities measured by volumes of small trades (< \$2k).

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