



**S&P
CAPITAL IQ**

McGRAW HILL FINANCIAL

Equity Market Pulse

Quantamental Research

- *Global Trends in Equity Market Fundamentals*
- *Performance in Regional Equity Markets*
- *Regional Investment Style Returns*
- *Quantamental Investment Research*

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Introduction

Equity Market Pulse provides professional investors with insights into global equity market fundamentals and performance at a glance. Spanning developed and emerging markets in the Americas, Europe, and Asia, it provides perspective on valuations, operating efficiency, and investment strategy effectiveness. The content of the Equity Market Pulse is driven by S&P Capital IQ's fundamental data and analytics including S&P Capital IQ Estimates, Global Point-In-Time Fundamentals, and the Alpha Factor Library. The analysis is broken into four themes:

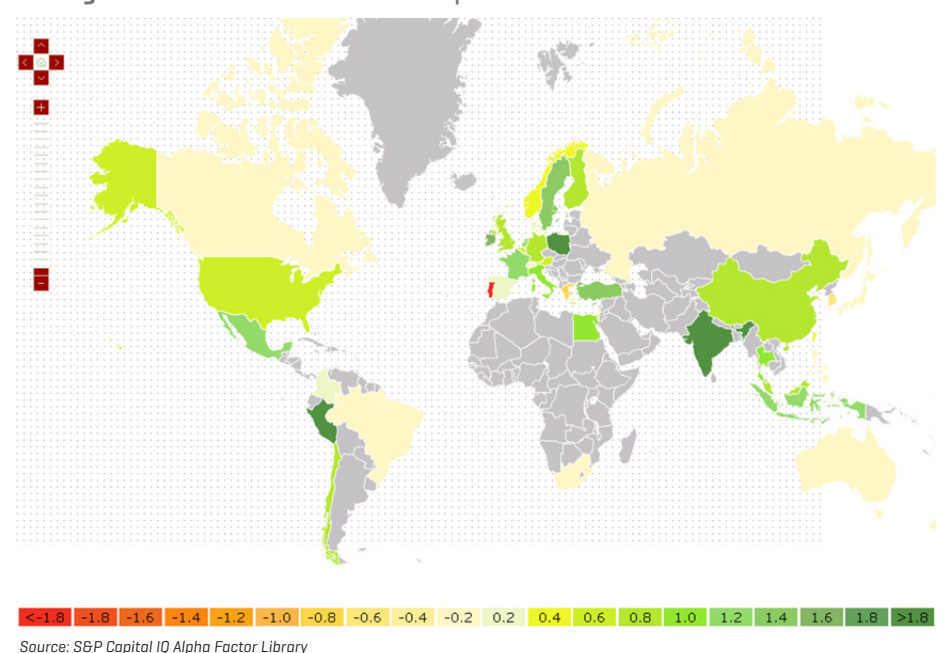
Valuation—Analysis of valuation multiples coupled with consensus outlook for earnings and revenue growth.

Operating Performance—Trends in operating performance with return on equity deconstructed into: net profit margins, asset turnover, and leverage.

Risk And Return—Tracks the dynamics of equity market returns and volatility.

Strategy Returns—Examines the performance of eight common investment strategies employed by global investors.

Earnings to Price—Excess Returns of Top 20% of Stocks Year to Date



Executive Summary

- The gap in market valuations and capital efficiency between developed and emerging markets in Europe and Asia has been widening. This indicates a preference for developed markets.
- Canada appears expensive relative to both other markets and itself historically on a trailing earnings basis, but appears in line based on consensus expectations.
- Return on Equity (ROE) improved in developed Europe and Japan. In both cases this was driven by stronger net margins.
- Canada and Latin America's risk-reward profile improved notably, with increases in annualized returns accompanied by declining volatility.
- Japan's strong relative performance in 2013 has reversed, with weaker returns coupled with continued high volatility year-to-date.
- The high trailing Earnings to Price strategy has been effective across global regions year-to-date. The strategy performed best in European and Asian emerging markets.

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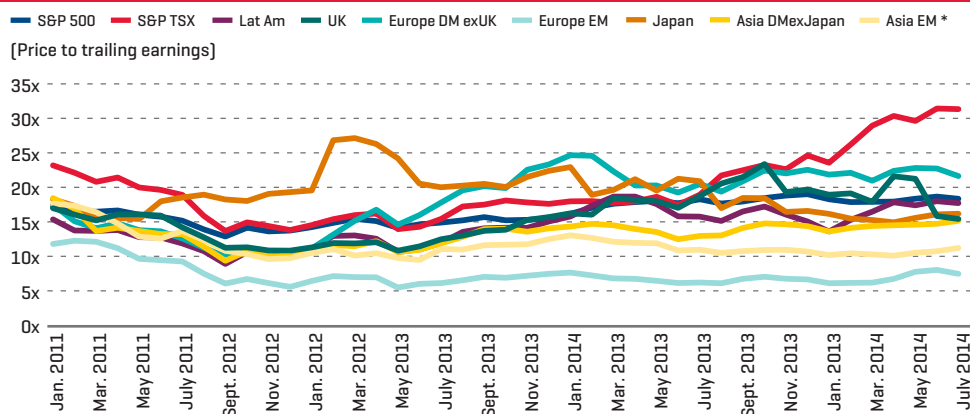
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Global Trends In Equity Market Fundamentals

VALUATION: PRICE TO EARNINGS ANALYSIS

Regional Market Valuation As Of July 31, 2014



*Regional indices are comprised of all companies in the S&P BMI Global Indices for the region.
Source: S&P Capital IQ Quantamental Research.

Regional Market Metrics As Of July 31, 2014

Americas	S&P 500	S&P TSX	Latin America
Price to Trailing Earnings	18.1	32.0	16.4
FY1 Price to Earnings	17.0	17.3	13.0
FY2 Revenue Growth	8.1%	14.3%	16.4%
Europe	United Kingdom	Europe DM exUK	Europe EM
Price to Trailing Earnings	15.1	22.1	7.7
FY1 Price to Earnings	15.3	16.4	6.3
FY2 Revenue Growth	3.7%	3.1%	8.7%
Asia	Japan	Asia DM exJapan	Asia EM
Price to Trailing Earnings	15.9	14.4	10.9
FY1 Price to Earnings	15.5	13.0	10.3
FY2 Revenue Growth	5.5%	7.7%	11.8%

Source: S&P Capital IQ Quantamental Research

- Canada is now expensive relative both to other markets and itself historically on a trailing basis. **Canada's multiple expansion has accelerated year-to-date**, driven by heightened expectations for earnings growth as is evident by a more normal forward multiple of 17.3x.
- The gap between developed and emerging P/E multiples in Europe and Asia has **widened over the past year**.

OPERATING PERFORMANCE: RETURN ON EQUITY ANALYSIS

Dupont Analysis: Return On Equity = Net Profit Margin

Americas		S&P 500		S&P TSX		Latin America	
		Current	July-2013	Current	July-2013	Current	July-2013
Return on Equity	[Profit / Equity]	15.0% ▲	14.0%	6.9% ▼	9.7%	9.1% ▲	8.8%
Net Profit Margin	[Profit / Sales]	9.3%	8.5%	5.7%	8.1%	8.1%	7.8%
Turnover [Sales / Assets]	[Sales / Assets]	0.35	0.36	0.16	0.16	0.27	0.28
Leverage [Assets / Equity]	[Assets / Equity]	4.6	4.6	7.4	7.3	4.2	4.1
Europe		United Kingdom		Europe DM exUK		Europe EM	
		Current	July-2013	Current	July-2013	Current	July-2013
Return on Equity	[Profit / Equity]	13.1% ▲	9.9%	8.2% ▲	7.8%	11.3% ▼	14.4%
Net Profit Margin	[Profit / Sales]	7.5%	5.5%	4.7%	4.4%	10.5%	13.1%
Turnover [Sales / Assets]	[Sales / Assets]	0.23	0.23	0.22	0.21	0.34	0.36
Leverage [Assets / Equity]	[Assets / Equity]	7.7	7.9	7.9	8.4	3.2	3.0
Asia		Japan		Asia DM exJapan		Asia EM	
		Current	July-2013	Current	July-2013	Current	July-2013
Return on Equity	[Profit / Equity]	8.1% ▲	5.8%	9.8% ▼	10.5%	14.3% ▲	14.2%
Net Profit Margin	[Profit / Sales]	4.3%	3.0%	7.6%	8.1%	9.8%	9.4%
Turnover [Sales / Assets]	[Sales / Assets]	0.33	0.32	0.32	0.31	0.19	0.20
Leverage [Assets / Equity]	[Assets / Equity]	5.7	5.9	4.1	4.1	7.6	7.5

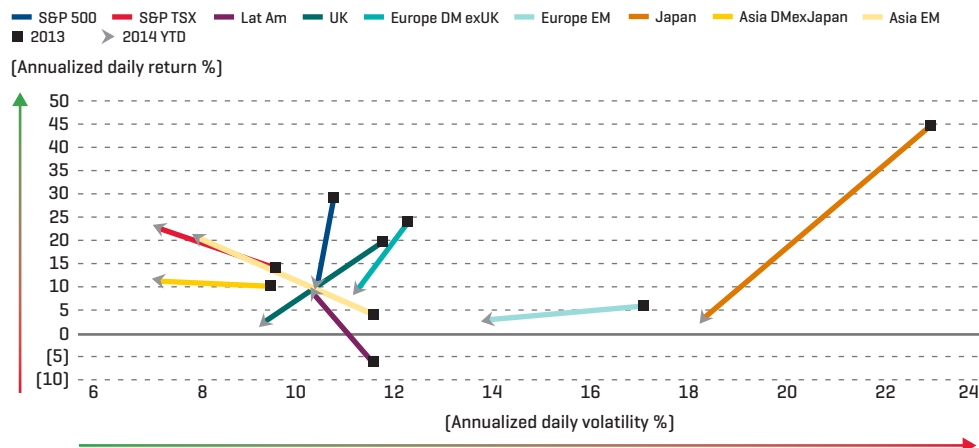
*Note: Highlighted cells are noteworthy changes to components of ROE, as discussed in the commentary below.
Source: S&P Capital IQ Quantamental Research

- ROEs in the developed markets have improved driven by strong growth in margins despite flat or decreasing leverage. ROEs within the emerging markets still remain above that of developing markets, with **an average ROE of 11.6%**, versus 10.2% for developed markets.
- While growth expectations remain high in Canada, **margins have declined 2.4% over the last 12 months**, perhaps calling into question the expectations for growth in Canada.
- The aggregate ROE for the S&P 500® of 15% is **the highest among all 9 regions**, driven by strong margins and asset turnover.

Performance in Regional Equity Markets

RISK AND RETURN ACROSS REGIONS

Annualized Daily Volatility & Return As Of July 31, 2014



Indexes are unmanaged, statistical composites and it is not possible to invest directly in an index. The returns shown do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of fees and charges would cause actual performance to be lower. Past performance is no indication of future results.

Note: Annualized return and volatility are based on realized cap-weighted daily total returns in each region.

Source: S&P Capital IQ Quantamental Research.

- **Japan continues to experience high volatility.** Year-to-date Japan has experienced the most significant decline in returns of any region when compared to 2013. Japan historically has been a market characterized by reversal.
- **Canada, Latin America, and Asian Emerging Markets** have experienced improved returns in decreasing volatility environments; an ideal scenario.

Regional Investment Style Returns

Which styles have been the most (least) effective this year?

We compare the returns of top ranked stocks* by various investing metrics with the returns of the overall market year to date.

*Top ranked as defined by the top 20% of companies as ranked by the stated metrics

Investment Strategy Performance—Excess Returns of Top 20% Of Stocks* YTD As Of July 31, 2014

Representative Factor:	Trailing E/P	Net Profit Margin	Market Cap	Forecast EPS Revisions	Trailing 1Y EPS Growth	12M Return Volatility	12M minus 1M Return	Return on Equity
Style	Valuation	Earnings Quality	Small Size	Analyst Expectations	Growth	High Volatility	Price Momentum	Capital Efficiency
S&P 500	0.3%	0.1%	0.3%	0.1%	0.1%	0.5%	0.1%	[0.4%]
S&P TSX	[0.1%]	[0.3%]	1.6%	0.0%	[0.3%]	2.0%	[0.5%]	[1.1%]
Latin America	0.3%	1.1%	[0.7%]	0.5%	1.2%	[0.5%]	0.9%	[0.0%]
Europe Developed exUK	0.6%	0.5%	0.2%	0.5%	0.6%	[0.3%]	[0.2%]	0.4%
United Kingdom	0.7%	0.3%	0.6%	0.2%	0.3%	[0.5%]	[0.7%]	[0.1%]
Europe Emerging	0.5%	0.6%	0.2%	[0.4%]	0.6%	[0.2%]	[1.9%]	[0.0%]
Asia Developed exJapan	0.0%	0.6%	[0.9%]	0.3%	[0.0%]	[0.9%]	0.8%	[0.5%]
Japan	[0.1%]	[0.4%]	0.1%	[0.2%]	[0.6%]	[1.2%]	[0.6%]	[0.3%]
Asia Emerging	0.7%	0.4%	0.5%	0.3%	0.5%	1.1%	[0.5%]	0.4%
# Regions Outperforming	7 of 9	7 of 9	7 of 9	7 of 9	6 of 9	3 of 9	3 of 9	2 of 9
OUTPERFORMING STRATEGIES						UNDERPERFORMING		

Backtested returns do not represent the results of actual trading and were constructed with the benefit of hindsight. Returns do not include payment of any sales charges or fees. Inclusion of fees and expenses would be lower. A positive difference does not necessarily mean that the strategy had positive performance or that it had positive performance to the extent shown. Indexes are unmanaged, statistical composites, and it is not possible to invest directly in an index. Past performance is not a guarantee of future results.

*Average 1 Month Return in excess of market for top 20% of stocks in that market

Source: S&P Capital IQ Quantamental Research

- The U.S. and Asian emerging markets have been healthy environments for commonly employed styles. Seven of the eight representative investment strategies have produced positive returns. Broad success in strategy performance commonly signifies a **friendly environment for active managers**.
- European year-to-date performance has been **driven by valuation at the expense of price momentum**. European investors rewarded stocks of companies with strong margins and earnings growth.
- Within Japan, **seven of the eight strategies delivered negative returns** as investor's punished high volatility and strong-momentum names. This is further evidence of the reversal nature of the Japanese market.

Quantamental Investment Research

APRIL 2014

[Riding the Coattails of Activist Investors](#)

Can following the actions of activists be an effective strategy? Following the warm reception of our first paper on the topic ‘Follow the Smart Money—Riding the Coattails of Activist Investors’ published in March 2013, we are reissuing the paper by extending the time period to December 2013. Our findings indicate*:

- One-month after the commencement of activism, a backtested portfolio of targets yielded a market-adjusted return of 3.9%. After controlling for market, size, value, and industry, the excess return was 3.0%.
- Twelve-months after the disclosure of activist involvement, a backtested portfolio of targets produced an annualized excess return of 11.7% after controlling for market, size, value, and momentum.
- Our research finds no evidence that by utilizing Form 13F filings and taking positions in pre-disclosed targets prior to the commencement of activism, increased excess returns.
- Pre-activism, the targets tended to be [i] small-capitalization [ii] slow-growing [iii] low payout [iv] financially healthy.
- Post-activism, the targets were characterized by having [i] higher financial leverage [ii] lower cash holding [iii] higher payout [iv] no improvement to their financial operations.

MARCH 2014

[Insights from Academic Literature: Corporate Character, Trading Insights, & New Data Sources](#)

As part of our research process, we make a concerted effort to stay abreast of interesting white papers. Academic research papers are a rich source for new ideas and fine tuning of areas for future work. Often they provide a launch pad for debate and exploration for our team. In this piece we have assembled a number of interesting articles that we believe will be of broad interest to our clients, and all investment professionals—Corporate Character, Trading Insights & New Data Sources. For each article we provide a link to the article, the abstract, and a brief discussion of the article highlights and how it will be useful to fellow practitioners. It is our hope that these papers help you generate differentiated thinking, and to better serve your clients.

FEBRUARY 2014

[Obtaining an Edge in Emerging Markets](#)

Following the introduction of our global stock selection models for developed markets [DM] in August 2013, we launch our stock selection model for emerging markets [EM] and report the following*:

- The Model generated a top quintile average monthly excess return of 0.90% within the S&P BMI Emerging Market Index [Jan 2002–Sept 2013].
- The Model’s performance is robust across regions and sectors.
- We do not observe performance degradation within mid to large cap stocks.
- Model’s top quintile average monthly excess return is identical in growth and value environments [0.80%], and positive in periods of elevated volatility [0.53%].
- A backtested portfolio generated an annualized excess return of 10.5% after including hypothetical transactions costs.

JANUARY 2014

[Buying Outperformance: Do share repurchase announcements lead to higher returns?](#)

We examine the returns surrounding buyback announcements to test whether, and when, buyback programs signal subsequent outperformance and shareholder value. We find*:

- Buyback announcements precede excess returns in the US. Stocks on average outperformed the equally weighted Russell 3000 by 0.60% over one month, and by 1.38% over one year periods following buyback announcements.
- Outperformance is greatest among small caps or larger magnitude buybacks as a % of shares outstanding.
- Reported insider trading and buyback announcement signals are complementary.
- In Europe, some post-buyback outperformance over 12 months, but no significant excess return after one month.

*Backtested returns do not represent the results of actual trading and were constructed with the benefit of hindsight. Except for the Emerging Markets strategy, returns do not include payment of any sales charges or fees. Inclusion of fees and expenses would be lower. The Emerging Markets strategy includes hypothetical transaction costs. Past performance is not a guarantee of future results.

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