Quant Corner: June 26, 2025

Factor Performance

PRVit spreads were positive in Europe, the U.K., and Japan through the fourth week of June (**Figure 1**). Quality worked in Japan while struggling elsewhere (**Figure 2**). Cheap Value outperformed expensive Value (**Figure 3**) in all regions except Japan.

Figure 1: PRVit Spreads

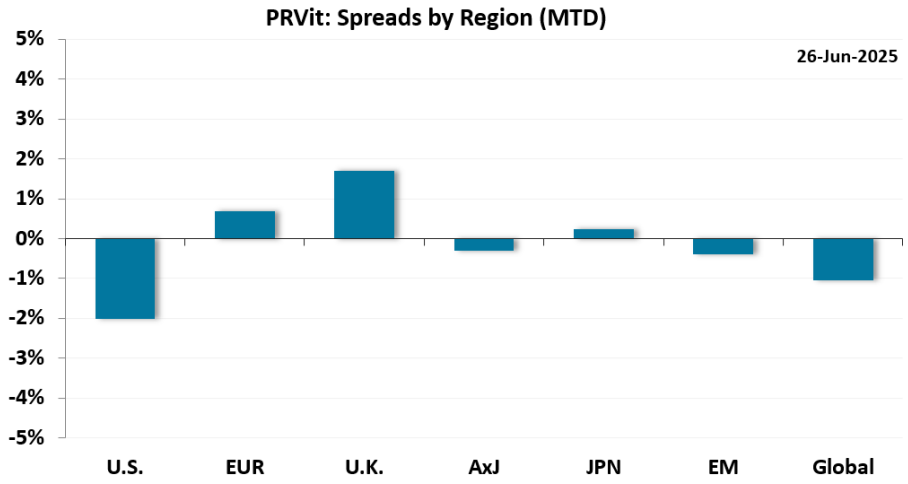


Figure 2: Quality Spreads

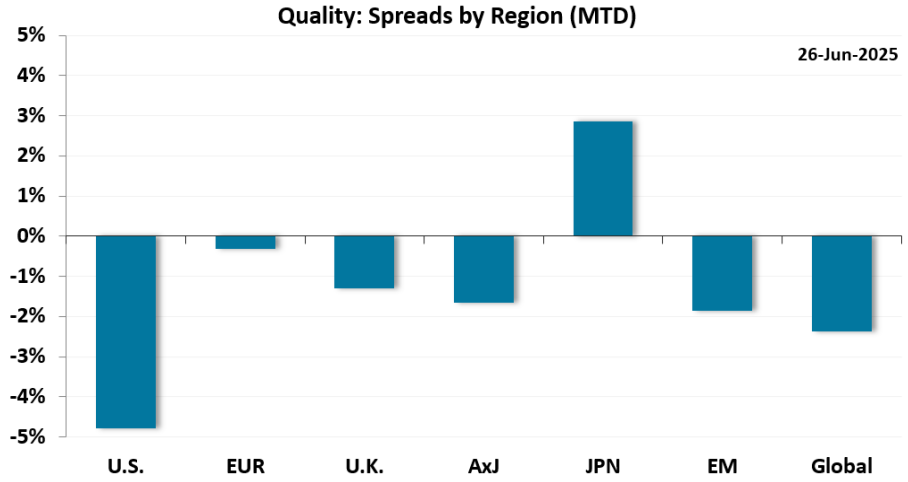
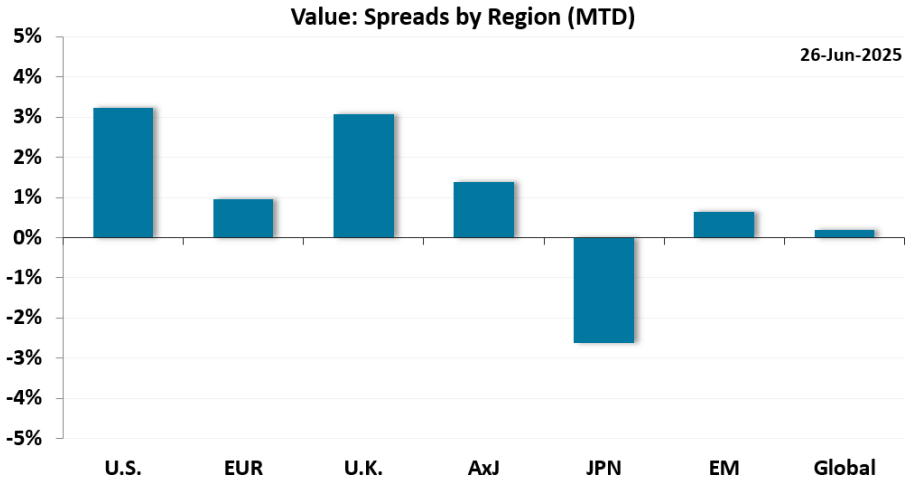


Figure 3: Value Spreads



Notes

In our weekly Quant Corner report, we break down factor performance for the major universes: the U.S., Europe (EUR and the U.K.), Asia ex Japan (AxJ), Japan, the Emerging Markets (EM), and our full Global universe. This report will not be as comprehensive as the full-month reports listed below.

The latest regional reports can be found here:

Global
United States
Europe/United Kingdom
Asia/Japan

Methodology

The 'spreads' terminology used in this report is the difference between the average return of the top 20% of stocks less the return of the bottom 20% of stocks on a given factor (top = highest Quality, cheapest Value, and most attractive PRVit). Top and bottom, as well as universe averages, are based on equally weighted baskets of stocks.

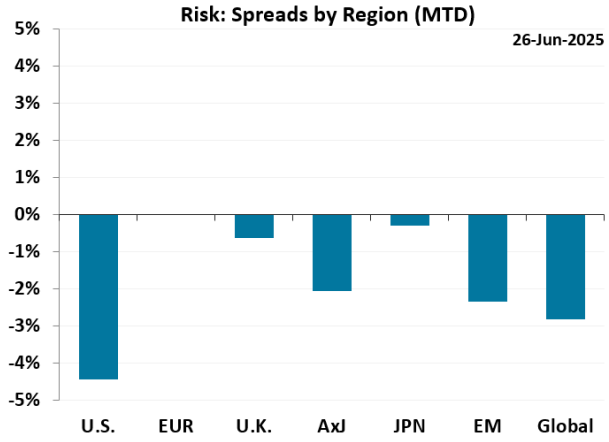
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We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework.
Our experienced team of global analysts offers both fundamental and quantitative company analysis on our +29,000 stock universe.

Visit our website www.EVAexpress.com

Figure 4: Risk Spreads



High-Risk companies outperformed low-Risk companies in all regions (Europe is -0.02% although it appears neutral in the graph).

Total Alpha, Long Alpha (buying the top quintile), and Short Alpha (selling the bottom quintile)

In the U.S., Large Cap (**Figure 5**) and Small Cap (**Figure 6**) had similar results: Quality struggled long and short (high-Quality names underperformed and low-Quality names outperformed), while Value worked long and short (cheap stocks outperformed and expensive stocks underperformed). Europe (**Figure 7**) had alpha in long Quality as well as long and short Value. The U.K. (**Figure 8**) looked like the U.S.: Quality was off long and short while Value worked long and short.

Figure 5: U.S. Large Cap Universe

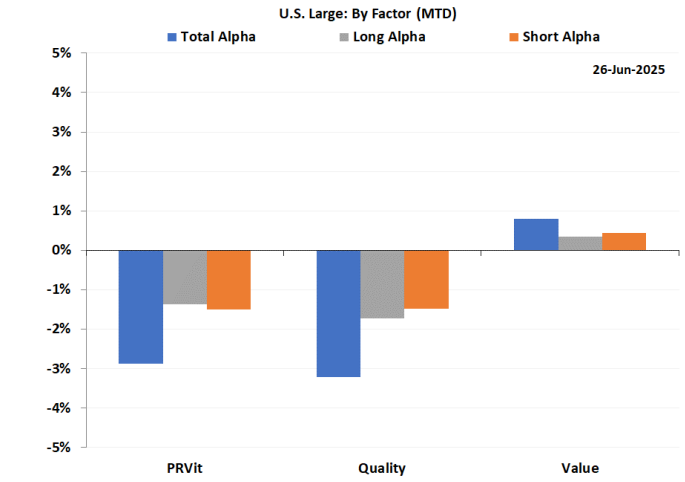


Figure 6: U.S. Small Cap Universe

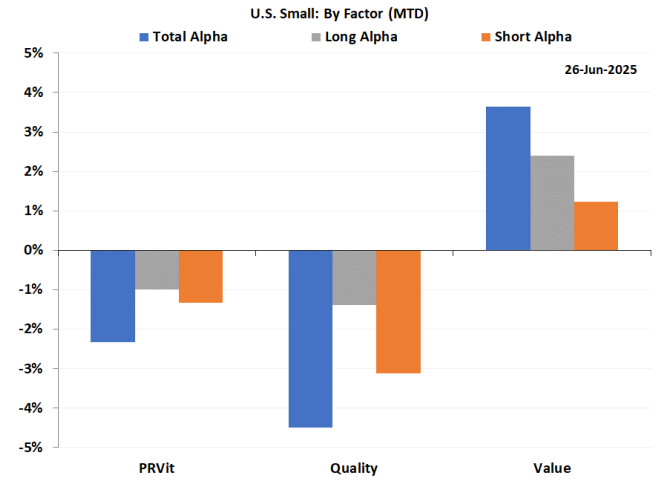


Figure 7: Europe ex U.K. Universe

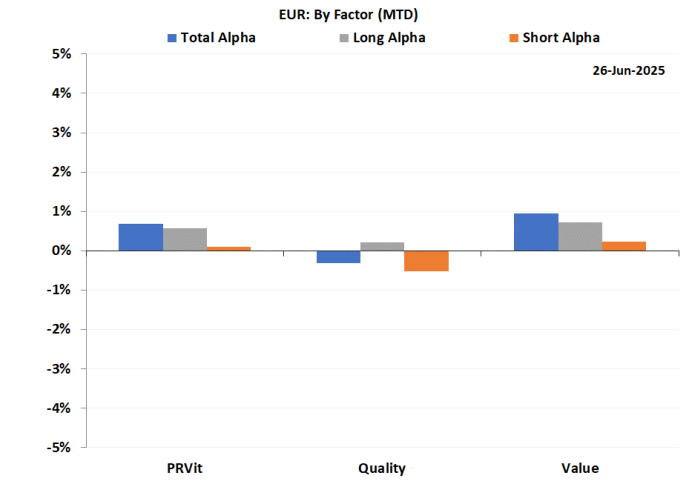
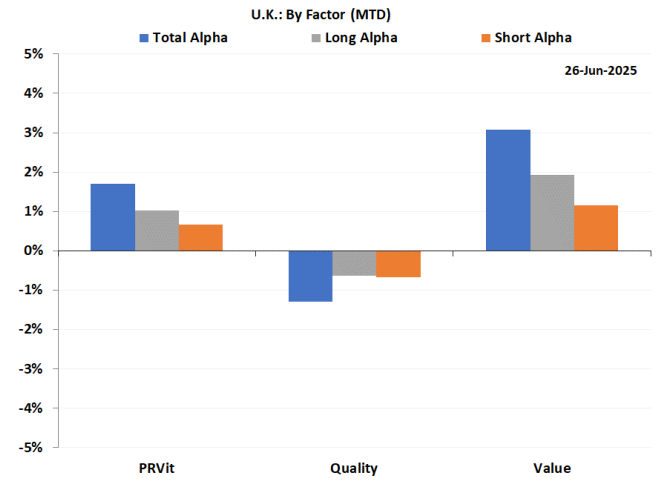


Figure 8: U.K. Universe



Total Alpha, Long Alpha (buying the top quintile), and Short Alpha (selling the bottom quintile)

In Asia ex Japan (**Figure 9**), Quality stopped working, while Value saw cheap stocks outperform and expensive stocks underperform. In Japan (**Figure 10**), Quality worked long and short, but Value did not work long or short. The Emerging Markets (**Figure 11**) saw Quality stop working after a long/short-balanced alpha last month. Cheap Value outperformed (positive long alpha) and expensive stocks underperformed (positive short alpha). In the Global universe (**Figure 12**), Quality stopped working, and Value had alpha that was mostly balanced between long and short.

Figure 9: Asia ex Japan Universe

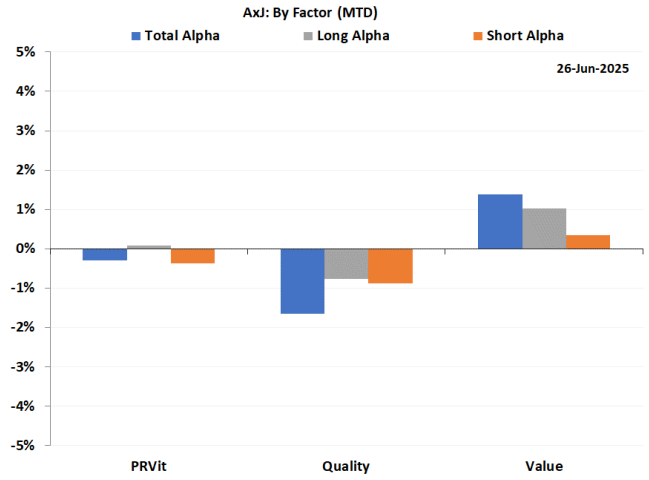


Figure 10: Japan Universe

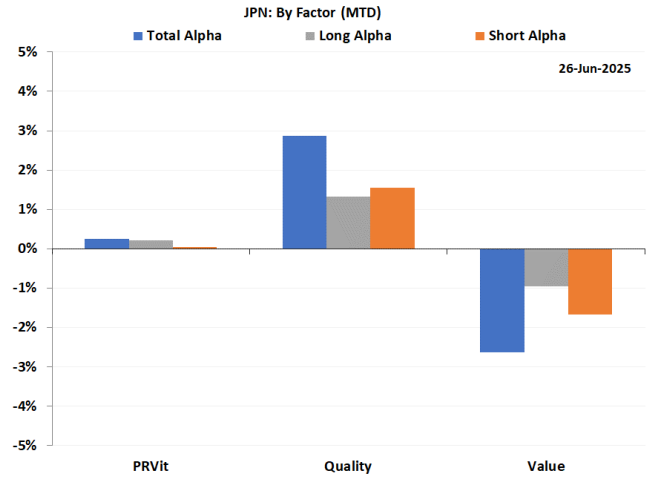


Figure 11: Emerging Markets Universe

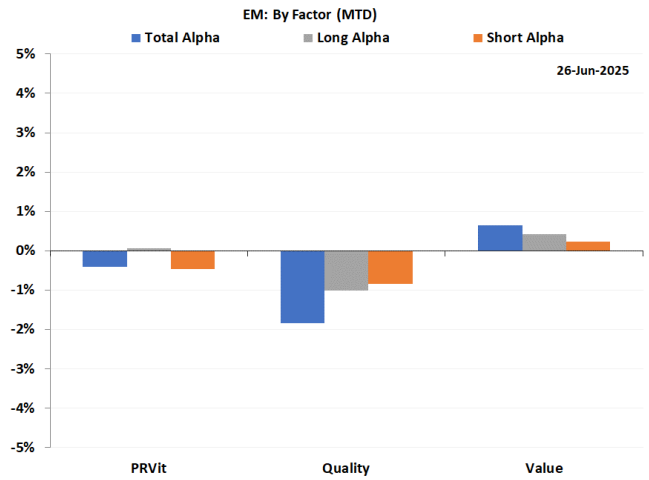
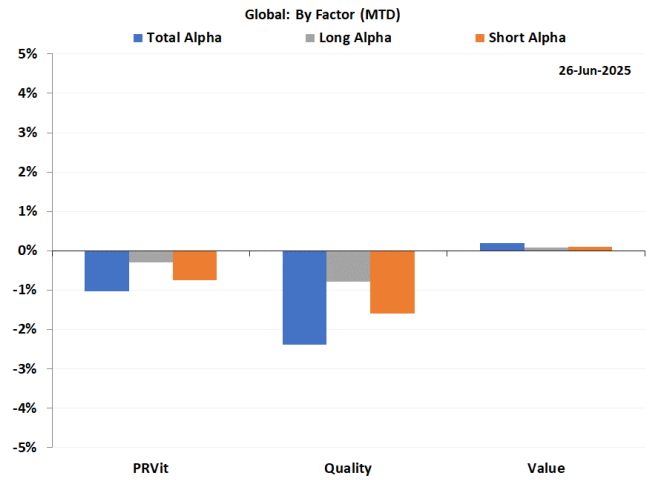


Figure 12: Global Universe



Daily Factor Performance – Quality and Value

Figures 13-18 show daily Quality, Value, and PRVit factor performance for the last 24 months. Calculations are based on daily re-balancing. The 'equal-weighted universe' lines are included to show market direction: when the colored factor lines are moving up, they are generating alpha, and when they are over the '0' line of the y-axis, they have had positive cumulative alpha.

Figure 13: U.S. Large Cap

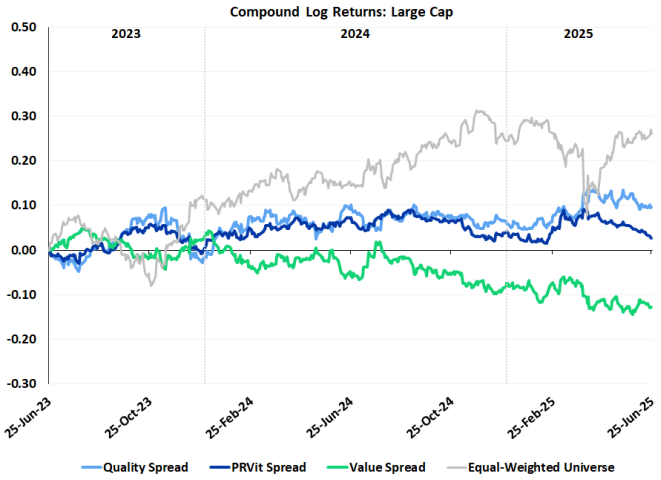


Figure 14: U.S. Small Cap

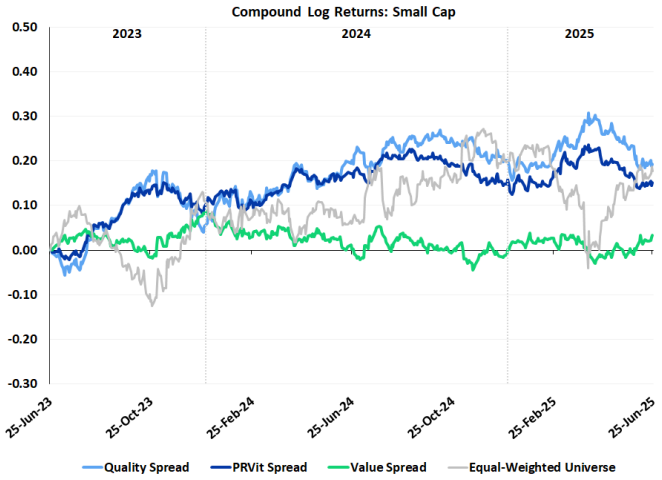


Figure 15: Europe

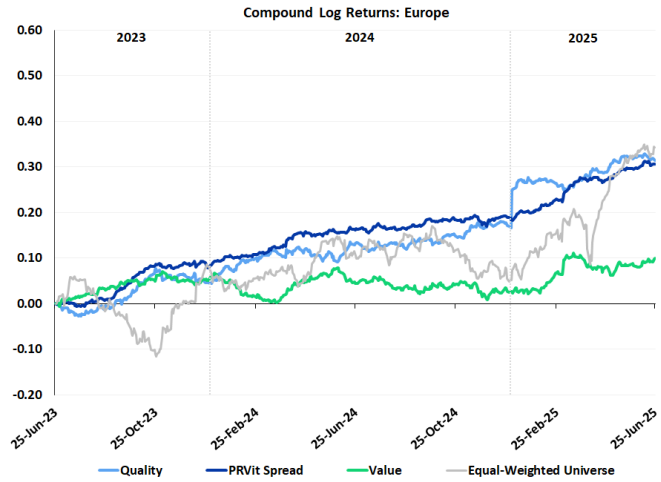


Figure 16: U.K.

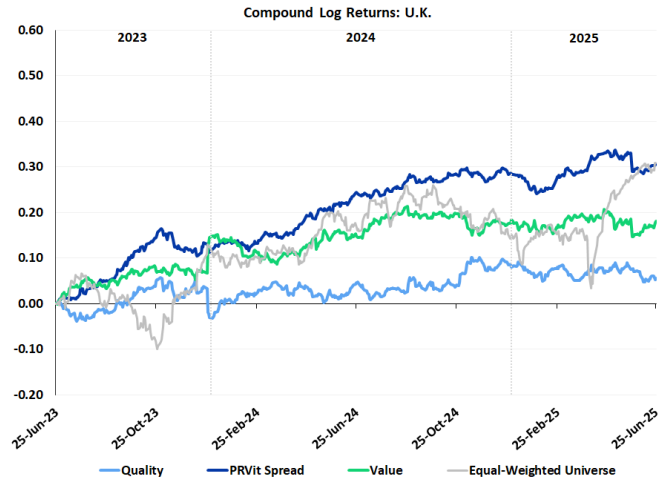


Figure 17: Asia ex Japan

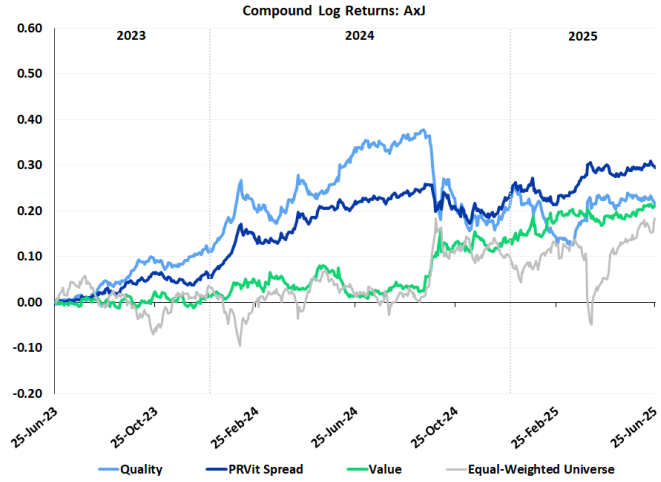
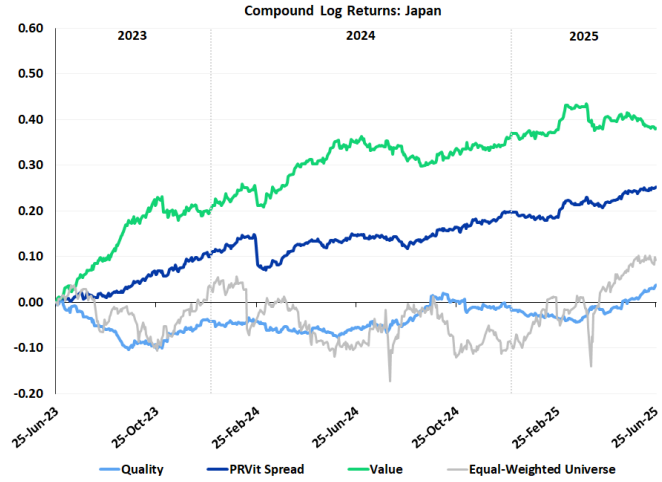


Figure 18: Japan



Market Expectations

Our Future Growth Reliance (FGR) indicates the percentage of the market cap coming from investors' expectations for future wealth creation (Future Value Added or FVA), above and beyond the current level of value creation (Current Value Added or CVA). The MVA Spread is our equivalent to a price-to-book: Current Value Added (CVA) plus Future Value Added (FVA) divided by Capital. Values in the parentheses are the z-scores for the current FGR (above)/MVA Spread (below) and indicate how much the current values differ from the standard deviation. Formula: ***(Current Value – Mean)/Standard Deviation***.

Figure 19: Future Growth Reliance

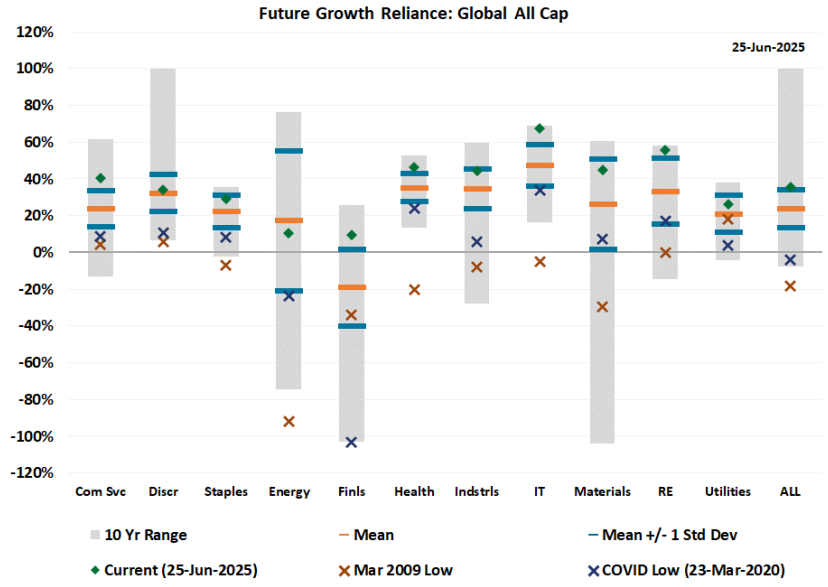


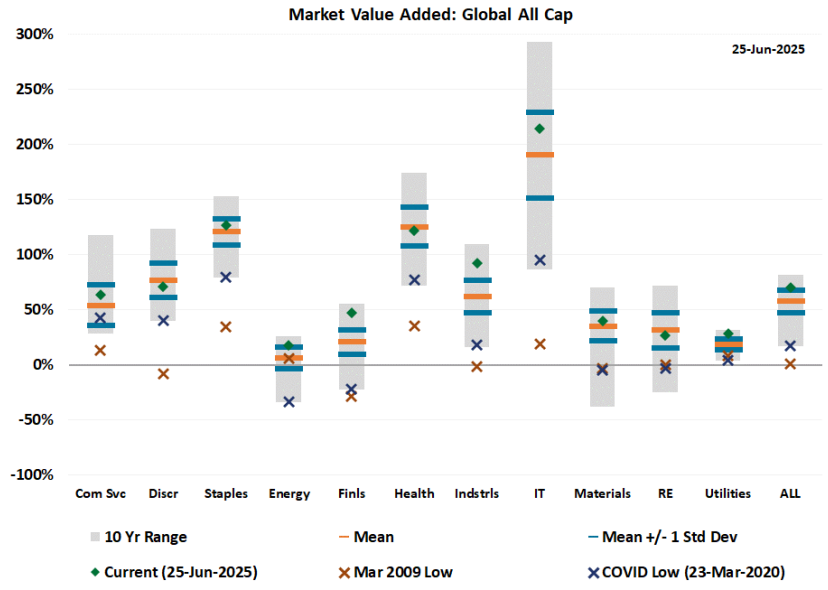
Chart Legend

Figures 19 and **20** plot values seen over the last 10 years – the gray area is the overall range (min to max), the **orange lines** represent the mean, the **greenish-blue** lines show the mean plus/minus 1 standard deviation, the **green diamonds** represent the current value, the **red 'Xs'** indicate the lows from March 2009, and the **blue 'Xs'** represent the lows of March 2020.

Future Growth Reliance (FGR)

IT (+1.8x), Communication Services (+1.7x), and Health Care (+1.5x) have the highest expectations. Energy (-0.2x), Discretionary (+0.2x), and Utilities (+0.5x) have the lowest expectations (despite the latter two being above average historical levels).

Figure 20: MVA Spread



Market Value Added Spread (MVA Spread)

Financials (+2.3x), Industrials (+2.0x), and Utilities (+2.0x) have the highest price-to-books relative to their histories. Discretionary (-0.4x), Health Care (-0.2x), and Materials (+0.3x) have some of the lowest price premiums.

Formulas

Future Value Added (FVA) =
Market Cap – Current Value Added (CVA)

Current Value Added (CVA) =
EVA / Cost of Capital (no-growth scenario)

Market Value Added (MVA) =
CVA + FVA

Future Growth Reliance (FGR) =
FVA / Market Cap

MVA Spread =
MVA / Capital (Net business assets after EVA adjustments)

About ISS EVA

We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework.
EVA converts accounting profits into economic profits and charges businesses for the use of Invested Capital. EVA is superior to traditional measures of profit because it is comparable across companies, industries, and countries, links to a consistent, transparent valuation framework, and provides a unique, unbiased view of Quality, Value, and Growth.

Our experienced team of analysts offers both fundamental and quantitative company analysis through written research, bespoke research, a stock selection model, an online analytical tool offering +29,000 companies as viewed through the EVA framework, custom screening, and portfolio analysis.

Key EVA Concepts

The value of a firm = Capital + Present Value of EVA
If EVA is increasing then the intrinsic value of the firm is too, suggesting that market value should follow (and vice versa).

EVA = NOPAT - Capital Charge
EVA is profit after all costs, including the cost of giving shareholders a decent return.

EVA Margin = EVA / Sales
A true economic profit margin covering income and asset efficiency. Our EVA Income Statement examines EVA's line item drivers and offers key insights into business profitability.

EVA Momentum = Δ EVA / Sales
An incremental EVA growth rate indicator and key valuation signal and screening measure. The more positive the Momentum, the greater the growth in EVA, and upward pressure on shareholder returns. Inflections in EVA Momentum are an early and more reliable indicator of stock price inflections.

EVA Shock = Δ EVA Momentum
Changes in EVA Momentum is a powerful signal within our framework, with significant relationship with stock price performance.

Market Implied Momentum (MIM)
The annual EVA improvement required for 10 years to justify the prevailing market enterprise value, expressed as a percent of sales; represents a market implied, long-range EVA margin improvement target.

Future Growth Reliance (FGR) = (Market implied value of future EVA growth) / EV
Measures the % of a company's total enterprise value represented by expectations for future growth in EVA. FGR is key to understanding embedded expectations today and versus history. A low FGR versus history coupled with improving EVA trends indicates that the market is not pricing in the improving business model.

Additional Resources

evaExpress.com (link): Our online offering provides a comprehensive suite of fundamental and quantitative tools utilizing the EVA framework
EVA for Investors (link): A full introduction to the key EVA concepts and metrics

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