4Q 2025

Factor Views

Themes from the Quantitative Solutions Research Summit

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In brief

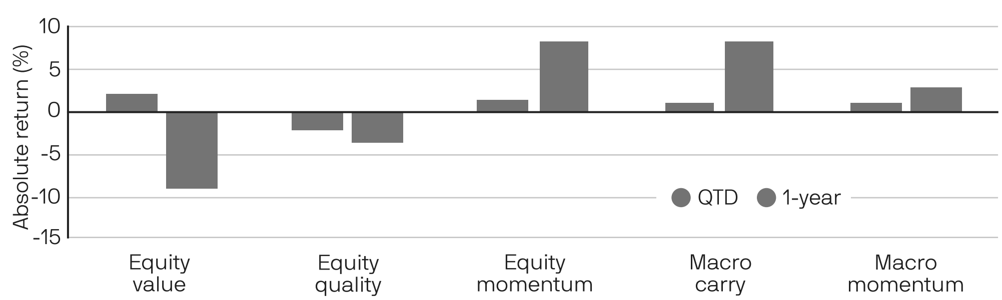
- Factors were positive in a third quarter marked by low volatility and less policy-related uncertainty than in the first half of the year.
- Equity factor performance continued to diverge by region: The artificial intelligence (AI) boom challenged the U.S. equity value and quality factors, a conventional impact of a speculative market tone, while absent this same phenomenon, international equity factors posted another strong quarter.
- Macro factors performed very well: Momentum and carry factors were both positive across all asset classes.
- We maintain our positive outlook for factors: The equity value factor remains attractive globally with an especially strong opportunity in the U.S.; the quality factor has become more inexpensive in the U.S., as have certain macro factors.

Overview

The third quarter saw risk assets and precious metals setting all-time highs, extending the second quarter's gains. Volatility remained low, yet—unusually for a low-vol environment—fear seemed to drive asset pricing. Fear of missing out gripped certain equity market participants while fear of policy error (and perhaps also of missing out) fueled a rise in the gold, silver and platinum markets. Factors were positive in aggregate, supported by strength international developed equity factors and macro factors (**Exhibit 1**).

Factors were positive in Q3, except equity quality

EXHIBIT 1: QUANTITATIVE SOLUTIONS LONG/SHORT FACTOR RETURNS (AGGREGATE)



Source: J.P. Morgan Asset Management; data as of September 30, 2025. Factors presented are long/short. Equity factors are global in nature and represented as 100% long notional exposure and are shown on a beta-neutral basis; macro factors are illustrated as an aggregation of 5% volatility subcomponents.

Investors welcomed a summertime reprieve from the frenzied first half of the year with its U.S. tariff policy and trade war escalations. Investors also appreciated corporate earnings largely exceeding expectations. Equity markets rose globally and emerging market (EM) equities gained even more than U.S. markets, both powered by demand for artificial intelligence (AI) and technology. The fundamentally oriented value and quality factors were challenged within U.S. and EM equity markets, where the ongoing AI boom drove an increasingly speculative and euphoric rally; however, momentum fared better. International developed markets also delivered a strong quarter, and in contrast to the experience in other regions, the international value factor performed very well.

The U.S. dollar stabilized against developed market (DM) currencies but continued to fall vs. EM currencies. The USD decline against EM currencies provided a tailwind to the FX EM carry factor (and to EM equities when measured in U.S. dollar terms). While U.S. Treasury yields fell over the quarter, the Federal Reserve's September interest rate cut was well anticipated and did not much move fixed income carry factors. Price moves across and within commodity markets ultimately settled and supported both commodity momentum and commodity carry.

Looking ahead, the equity value factor is highly attractive from a fundamental perspective. We are neutral on other equity factors, although we emphasize that a neutral view implies positive returns. We are neutral overall on macro factors and, more broadly, we upgrade our assessment of the commodity carry and trend following factors' prospects.

Factors in focus

Equity factors were mixed with notable dispersion across regions

The factor trends in place since the post-Liberation Day[1] equity market lows largely continued in the third quarter. Momentum extended its strong outperformance globally, value outperformed and quality lagged. From a regional perspective, U.S. and international factors diverged—particularly value and quality.

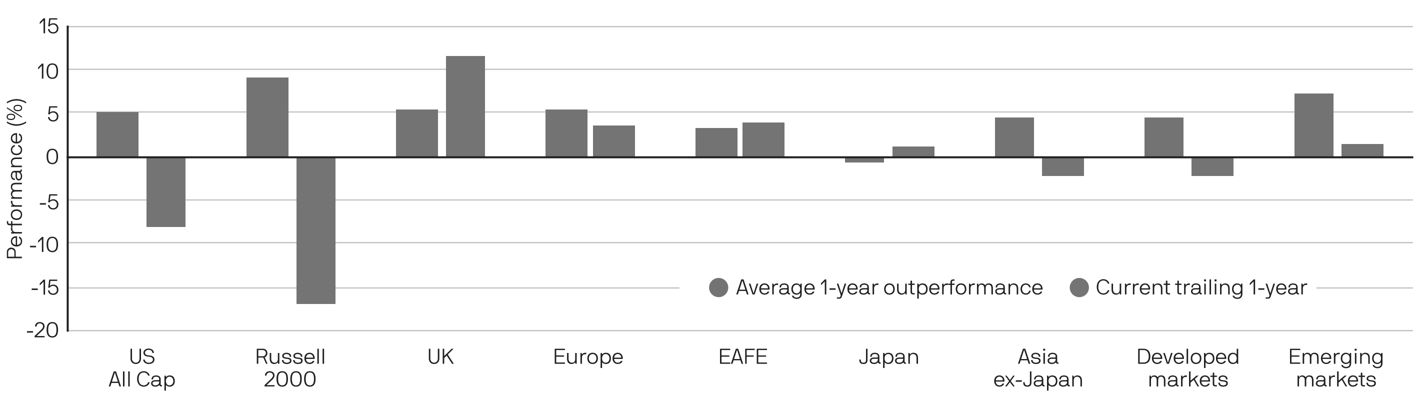
Quality posted the worst performance among factors on a global basis, driven by weakness in U.S. and emerging equity markets, as gains seemed driven more by investors' belief in AI's growth potential rather than company fundamentals. That was not the case in Europe or the U.K., where the quality factor rose.

The challenge for the quality factor, and the ongoing regional divergence, are unusual. The past year flipped the tendency of more profitable stocks to outperform their less profitable peers over the long term (**Exhibit 2**). Our 30 years of data show that on average, the most profitable quartile of U.S. stocks outperform their least profitable peers by 5.3% (over a one-year rolling timeframe). However, over the past year this flipped: The least profitable quartile outperformed the most profitable quartile by 7.8%. We last observed an inverted relationship of about this magnitude during the post-Covid recovery when investors were trading on significant euphoria. Subsequently, in 2022,

1 Liberation Day was the Trump administration's announcement of a broad set of tariffs on April 2, 2025.

The least profitable stocks are outperforming the most profitable, flipping the norm

EXHIBIT 2: PERFORMANCE DIFFERENTIAL, TOP VS. BOTTOM PROFITABILITY QUARTILES



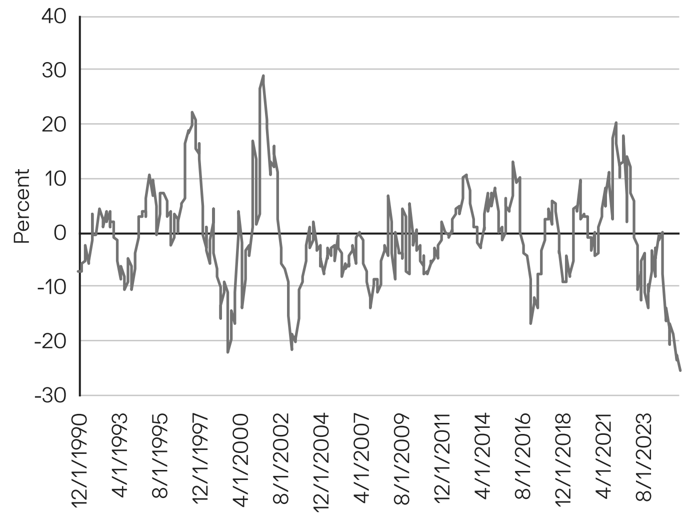
Source: J.P. Morgan Asset Management; data as of September 30, 2025.

U.S. value has struggled since the presidential election, while performing well elsewhere

EXHIBIT 3: PERFORMANCE OF THE VALUE FACTOR ACROSS REGIONS

3A: VALUE FACTOR PERFORMANCE BY REGION

3B: U.S. VALUE VS. EAFE VALUE—ROLLING 1-YEAR



Source: J.P. Morgan Asset Management; data as of September 30, 2025.

more profitable stocks reasserted their strength and fundamentals reemerged as drivers of returns.[2]

The value factor's performance continued to diverge by region, struggling in the U.S. while performing well elsewhere, a trend that has been accelerating since the run up to the election of President Trump in 2024 (**Exhibit 3A**).

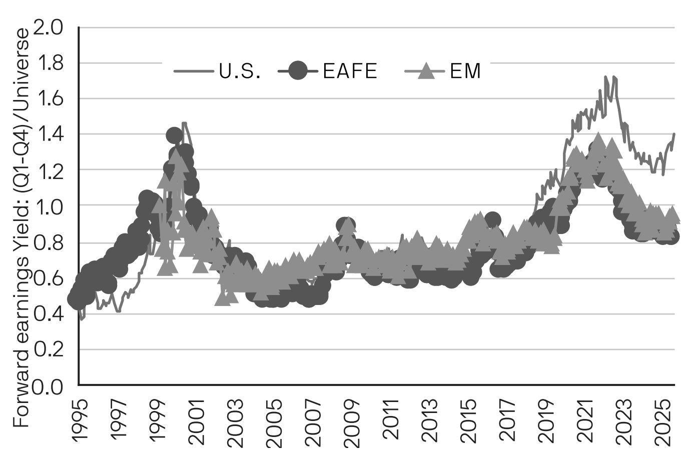
In international markets, value has been boosted by the gradual policy normalization underway at the European Central Bank and the Bank of England, lending support to relative earnings growth in value-heavy segments including banks, industrials and exporters. The weaker USD has given a further tailwind to exporters—many of them value constituents—improving their earnings and outlooks. There is no international DM counterpart to the euphoria over U.S. mega-cap tech/growth stocks that has prompted the U.S. value factor's underperformance.

The U.S. value factor's one-year weakness, relative to its EAFE counterpart, is the worst in our data history dating to 1990. While today's euphoria is different, we find it has an interesting pattern of regional similarity to the 1999 and early 2000 dot-com bubble (**Exhibit 3B**)—and the growth rally after the crash of 2000.

Our outlook sees more regional divergence ahead. While the value factor remains inexpensive across geographies, over the quarter it became even more so within the U.S., where it is greater than one standard deviation inexpensive, relative to its long-term history—making U.S. value significantly more attractive. Indeed, while U.S. value has not returned to its post-Covid 2023 levels, it is as appealing as it has been since the height of the dot-com bubble in March 2000. U.S. small cap value is even less expensive than in the dot-com days (**Exhibit 4**).

Value became more attractive over the quarter, particularly within U.S. markets

EXHIBIT 4: EQUITY VALUE VALUATION AND SPREADS BY REGION



Source: J.P. Morgan Asset Management; data as of September 30, 2025.

2 This was the fourth worst drawdown for the broader U.S. quality factor in our records dating to 1990—surpassed only by the Covid recovery, the period after the global financial crisis (the "dash to trash" rally) and the dot-com bubble.

International developed and emerging market value is not quite one standard deviation inexpensive, relative to its long-term history, but it looks better than it did during most (two-thirds) of the 20-plus years we have measured it. That signals the potential for above-average returns in the international value factor.

Turning to quality, the factor remains attractive when measured among U.S. markets but is close to neutrally valued in other regions. However, some of the fundamental measures we use to define the quality factor have diverged significantly. This may support a stronger outlook than valuations alone would imply.

The momentum factor is now generally aligned with the upward move of expensive stocks across the globe, particularly in the U.S. and emerging markets. That lean toward expensive stocks may indicate greater potential for a sharp momentum slide—although for the momentum factor, valuation tends to be a less reliable signal of future performance than it is for other factors.

Macro factors: Momentum and carry each up across all asset classes

Macro factors bounced back over the quarter, gaining across the board as momentum took hold and carry was generally rewarded.

Commodity factors led, amid record-setting rallies in gold and silver that dominated the market narrative, but the story was broader. The relative value carry, relative value momentum and trend momentum factors each profited across commodity markets. Commodity carry benefited from a sharp rise in coffee prices stemming from drought in Brazil's and Vietnam's key growing regions, and the tariffs the Trump administration has imposed on both countries. Positive supply surprises that lowered natural gas, wheat and lean hog prices, also supported the commodity carry factor, which had been positioned short.

Commodity momentum, whether expressed in a relative value or trend following form, also benefited from the rise in coffee prices and fall in wheat. The factor also profited from the continued and accelerating rise in precious metal prices, which has been driven by central bank purchases, fears of currency debasement and higher prices in both live cattle and feeder cattle markets — the U.S. cattle herd is the smallest it has been in over 70 years.

The FX carry factor also enjoyed a strong quarter, supported by its performance across EM currencies in particular, gaining across the long and short sides. High-carry currencies (including the South African rand, Mexican peso and Colombian peso) rallied, while low-carry currencies (such as the Taiwanese dollar and the South Korean won) fell. In addition, the equity trend factor profited from strengthening rallies across a range of markets.

Looking ahead, we continue to hold a neutral view of macro factors. FX carry spreads remain wide, relative to the past 18 years since the global financial crisis (GFC). Annualized spreads have widened from a post-GFC average of 2.5%–3.2%. Still, these spreads are neutral relative to longer-term history. Fixed income carry spreads have tightened, whether measured in yield curve steepness or real yield terms, leading us to downgrade our outlook to negative. Commodity carry spreads, on the other hand, have widened and are now one standard deviation more attractive than their long-term average.

We also remain neutral across macro momentum factors. Dispersion is low within currency and commodity markets, though we have seen a pickup in the number of significantly trending markets, leading us to upgrade our outlook for the directional subset of momentum factors.

Concluding remarks

We continue to see generally attractive prospects for equity factors, with the value factor appearing even more inexpensive globally than last quarter. We generally rate macro factors neutral, relative to long term-history; however, FX and commodity carry have more attractive annualized carry spreads than during much of the post-GFC period.

Given an unusual market backdrop that may challenge traditional asset classes, we continue to see factors as attractive opportunities for diversifying sources of return.

Factor opportunity set

The table below summarizes our outlook for each of the factors accessed across J.P. Morgan Asset Management. It does not constitute a recommendation but rather indicates our estimate of the attractiveness of factors in the current market environment.

Our framework for evaluating factor outlooks is centered on the concepts of dispersion, valuation and the opportunity for diversification. For equity factors, we measure dispersion and valuation spreads between top-quartile and bottom-quartile stocks on a market, region and sector-neutral basis. For event-driven factors, we measure implied carry and the level of corporate activity as indicative of the ability to minimize idiosyncratic stock risk. For macro factors, we measure the dispersion or spread between top-ranked and bottom-ranked markets, as well as the number of significantly trending markets.

FACTOR VIEWS VS. LAST QUARTER:

▲ Upgrade ▼ Downgrade — No change

Low | Below average | Average | Above average | High

OPPORTUNITY

				Rationale
Equity	Valuation		—	Attractive on valuation, neutral on dispersion
	Quality		—	Neutral on valuation, neutral on dispersion
	Momentum		—	Neutral on valuation, neutral on dispersion
Macro	Carry		—	Neutral on FX spreads, negative on fixed income spread (decrease from last quarter), positive on commodity spread (increase from last quarter)
	Momentum		—	Neutral on FX price dispersion, neutral on commodity price dispersion, positive on significant price trends (increase from last quarter)

Source: J.P. Morgan Asset Management; **data as of September 30, 2025**. For illustrative purposes only.

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Glossary

- **Equity value:** Long/short global developed stocks based on book-to-price, earnings yield, dividend yield, cash flow yield; sector and region neutral
- **Equity quality:** Long/short global developed stocks based on financial risk, profitability and earnings quality; sector and regional neutral
- **Equity momentum:** Long /short global developed stocks, based on price change and earnings revisions; sector and region neutral
- **Equity size:** Long/short global developed stocks based on market capitalization; sector and region neutral
- **Macro carry:** FX G-10 carry, FX emerging market carry, fixed-income term premium, fixed-income real yield, commodity carry
- **Macro momentum:** FX cross-sectional momentum, commodity cross-section momentum and time series momentum across equity, fixed income and commodity markets

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Next steps

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