

Beaten down stocks surge

A review of key factors driving returns across markets during October, which saw the S&P 500 surge over 8% while investors pile into the worst performers of the third quarter in Europe and Apac.

- US stocks rally as energy names fuel October bounce and risk appetite increases
- Investors flock to underperformers as price reversals occur with winners losing momentum
- High trailing yields still a strong hit with investors as the factor provides solid returns

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Optimism creeping through

During the month of October, US markets moved against short sellers with the second largest month of average **price increases** seen across high conviction names. The recovery rally was broad and saw the S&P 500 increase by over 8%. However, some energy names soared over 30%. The index is currently tracking to finish 1% higher year to date, representing a significant improvement post August's steep selloff.

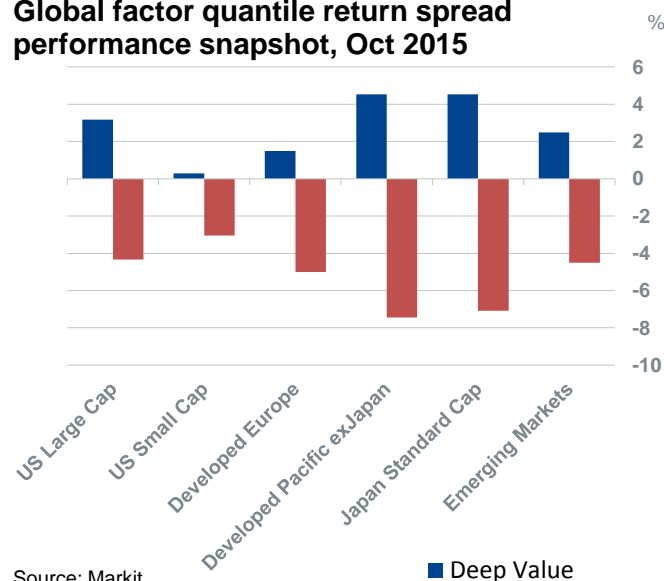
Last week, the release of strong jobs and wage growth data now points to an increased probability of a 2015 rate hike and to some extent, gives credence to the October equity rally.

Globally, however, investors have been faced with mixed signals with developed industrial nations contributing to a positive global manufacturing PMI reading of 51.4 in October, offset by an ongoing slump in emerging Asian markets.

Markit Research Signal's factor performances indicate in October that a strong theme of price reversal was seen across markets, with names that had fallen out of favour previously begin to represent value (even names highly shorted), while price momentum factors underperformed.

Overall, investors' risk appetite increased as they shed less risk (quality) winning names and those with positive price momentum for downtrodden names that have seen consistent price declines, most notably in the energy sector.

Global factor quantile return spread performance snapshot, Oct 2015



US manufacturing and energy rebounds

Despite headwinds from a stronger dollar in the US, PMI data posted its strongest improvement since April while stocks recorded their biggest monthly gain since 2011.

Longterm price reversal and valuation factors took the lead for the US Large Cap universe in October. At the top of the list is the Price Momentum factor 60-Month Alpha, whose monthly performance of 6.7% was impacted

by its large active exposure to the Energy sector.

Using the 60-month Alpha factor and ranking by individual names reveals that Energy and material stocks represent the majority of names whose returns are not explained by the general market movements and responsible for the price reversals.

Energy's biggest gainers

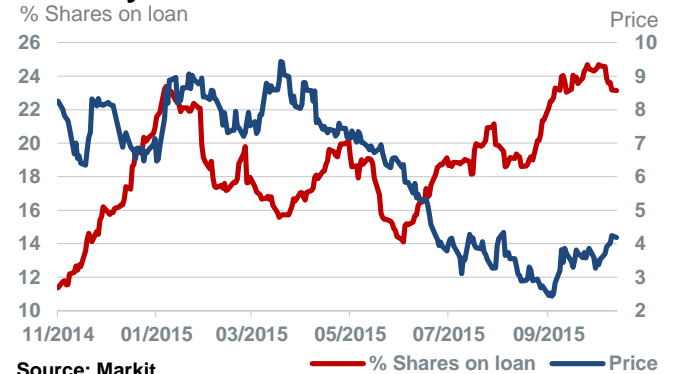
Four energy names in a US Large Cap universe rallied by more than 20% during October, despite all having material levels of shorts interest. Three have fallen over 35% in the last 12 months and Canadian Baytex Energy is down an astonishing 80% (rally inclusive).

Name	Ticker	Value on loan (\$m)	% Shares Outstanding On Loan	1 Oct to date % Change	% Change October
Denbury Resources Inc	DNR	347,885,376	23.1	68%	35%
Baytex Energy Corp	BTE	144,598,528	12.8	54%	25%
Noble Corporation Plc	NE	878,784,256	26.5	28%	22%
Transocean Ltd	RIG	1,262,238,720	21.9	20%	22%
Murphy Oil Corp	MUR	533,396,800	10.0	31%	19%
Weatherford International Plc	WFT	467,205,376	5.4	31%	19%
Newfield Exploration Co	NFX	67,862,664	1.0	17%	19%
Qep Resources Inc	QEP	52,070,204	1.8	24%	19%
Rowan Companies Plc	RDC	109,510,120	4.2	31%	18%
Canadian Natural Resources Ltd	CNQ	828,698,368	3.1	28%	18%
EnSCO Plc	ESV	382,397,632	8.9	35%	17%
Apache Corp	APA	579,100,032	3.1	36%	17%
Cameco Corp	CCO	82,439,472	1.6	4%	17%
Diamond Offshore Drilling Inc	DO	197,621,216	6.2	38%	16%
Crescent Point Energy Corp	CPG	434,963,552	6.0	17%	15%

The rally has continued across these energy names with only three names losing some ground in the first weeks of November.

Rising 35% in October and another 33% since is Denbury Resources, an independent oil and natural gas company, which has seen a marginal reduction in short interest recently with shares outstanding on loan reducing to 23%.

Denbury Resources Inc



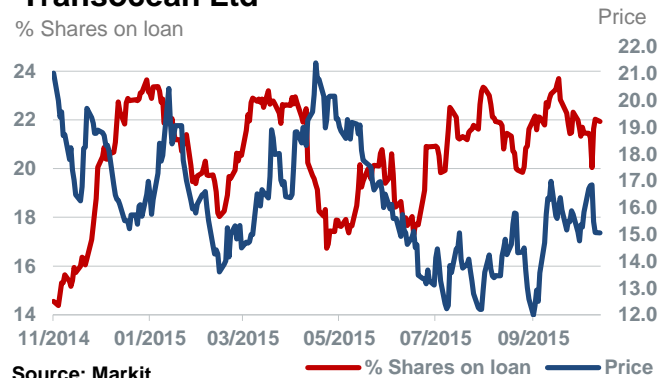
Not to be confused with **Noble Group** in Singapore, Noble Corporation rallied by 22% in October and a further 6% since. The increase in share price has, however, attracted additional short sellers to the offshore deep-water driller with 26% of shares currently outstanding on loan.

Noble Corporation Plc



Largest of the three by market capitalisation is **2014 top energy short** Transocean with 21.9% of shares outstanding on loan. The share has retreated marginally and currently represents the largest short position on aggregate by value in stocks that rallied at \$1.26bn.

Transocean Ltd



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