

High risk trade gives way to shorts

January 2021

Research Signals

What started out as a relatively uneventful month of positive momentum in high risk shares, carried over from the end of last year on optimistic vaccination and economic outlook, turned into a wild ride for a handful of highly shorted US stocks. This was reflected in historically poor factor performance of Short Sentiment factors mostly concentrated in US markets (Table 1). Investors now wait to see if the bull market will be derailed from retail investors' uprise, vaccine snags and tighter restrictions amid an uncertain global economic environment, with the global manufacturing upturn slowing at the start of the year, though remaining solid, with just a slight dip in the J.P.Morgan Global Manufacturing PMI.

- US: Demand Supply Ratio encapsulated the frenzied trading in highly shorted names, which was especially pronounced among less liquid small caps
- Developed Europe: 3-M Revision in FY2 EPS Forecasts remained a positive signal in January, representing a 31-percentage point improvement in spread compared with November results
- Developed Pacific: Book-to-Market was a strong performer in Japan relative to Industry-adjusted 12-month Relative Price Strength, while 24-Month Value at Risk outperformed in markets outside Japan
- Emerging markets: High quality firms were highly rewarded, such as those gauged by Fixed Assets Turnover Ratio

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Table 1

Global factor quantile return spread (%) performance snapshot, Jan 2021

Factor	Factor Group	US Large Cap	US Small Cap	Developed Europe	Developed Pacific ex Japan	Japan Standard Cap	Emerging Markets
Book-to-Market		3.62	-6.51	-1.07	0.85	2.69	-4.84
Forward 12-M EPS-to-Enterprise Value	Deep Value	-0.60	-8.47	0.37	-0.18	-2.13	1.42
TTM EBITDA-to-Enterprise Value		-0.17	-12.57	0.17	1.46	0.02	0.38
TTM Free Cash Flow-to-Enterprise Value		1.36	-6.10	1.03	-0.73	-1.92	0.40
Industry Relative Leading 4-QTRs EPS to Price	Relative Value	2.68	-6.90	1.14	0.36	-0.48	1.49
Industry Relative TTM Dividend Yield		1.03	2.93	1.21	-0.75	4.29	-0.88
Fixed Assets Turnover Ratio	Management Quality	0.10	1.56	-1.51	3.18	-2.41	2.77
Inventory Turnover Ratio		-5.24	-6.21	-1.60	4.58	-4.13	1.34
Net Operating Asset Turnover		-0.02	0.29	0.07	2.92	-2.72	2.69
Change in Accruals to Assets	Earnings Quality	3.77	0.75	-1.16	-2.45	1.24	0.18
Change in TTM COGS vs. Inventory Level		-7.49	-5.93	1.91	4.13	1.38	-0.09
Change in TTM Sales vs. Accounts Receivable		2.32	-0.26	1.54	-2.84	-0.15	0.43
Working Capital Accruals		-1.12	3.42	-0.52	1.50	-0.43	0.05
1-yr Growth in TTM Free Cash Flow	Historical Growth	2.84	1.69	1.32	2.63	1.56	1.25
Reinvestment Rate		-3.24	-8.66	-1.60	5.21	-4.01	2.82
Average Monthly Trading Volume-to-Market Cap	Liquidity, Risk & Size	7.85	29.07	0.70	-2.79	2.10	0.05
60-Month Beta		-3.78	-9.75	2.13	-1.71	-1.99	0.29
Asset Quality Index		0.79	1.62	-1.09	-0.19	-1.32	1.54
Operating Leverage		0.32	-3.25	0.90	2.00	-0.86	0.41
Natural Logarithm of Market Capitalization		7.05	12.66	0.49	-0.74	0.31	2.59
2-Year Ahead EPS Growth	Earnings Momentum	-1.30	5.35	-1.73	-1.32	3.36	-0.17
3-M Revision in FY2 EPS Forecasts		2.60	5.60	2.25	3.82	-3.22	1.97
Real Earnings Surprise		2.77	3.84	0.10	2.12	-0.36	0.32
24-Month Value at Risk	Price Momentum	-5.16	-17.80	1.56	2.27	-3.05	1.37
5-day Industry Relative Return		7.91	10.83	3.30	-3.96	1.51	0.26
Industry-adjusted 12-month Relative Price Strength		1.48	5.57	-0.05	0.96	-6.39	1.76
Rational Decay Alpha		-2.30	0.05	2.15	2.65	-3.85	2.86
Demand Supply Ratio		-9.92	-22.36	-2.16	1.40	-1.27	2.82
Implied Loan Rate	Short Sentiment	-8.21	-20.48	-0.22	0.86	-0.21	0.41

Source: IHS Markit

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United States

US Large Cap

The US manufacturing sector started 2021 on solid footing, with the manufacturing PMI climbing to a survey high of 59.2 in January, up from 57.1 in December, driven by accelerated expansions in output and new orders, while cost pressures intensified amid raw material shortages. Pressure also built up in stock markets in the final week of the month in a battle between day traders and hedge funds, resulting in frenzied trading in GameStop and other heavily shorted stocks, as major indexes suffered their worst weekly decline since October, erasing their gains for the month.

Short-term price reversal metrics were highly rewarded among US large caps in January (Table 2), including factors such as 5-day Industry Relative Return (7.91%) and 14 Day Relative Strength Index (7.32%). However, the more interesting factor performance occurred at the opposite end of the spectrum (Table 3), where Short Sentiment signals were crushed during the manic trading in highly shorted stocks. Demand Supply Ratio (-9.92%) captured this trade (Figure 1), where we find that the most heavily shorted (D10) names outperformed at a clip surpassing that of April 2020 following the initial COVID-19 panic, and only outpaced in April 2009 coming out of the financial crisis.

Table 2

US Large Cap top decile return spread factor performance, Jan 2021		
Factor	Decile spread (%)	Factor group
5-day Industry Relative Return	7.91	Price Momentum
5-yr Relative TTM Sales-to-Price	7.85	Relative Value
Average Monthly Trading Volume-to-Market Cap	7.85	Liquidity, Risk & Size
14 Day Relative Strength Index	7.32	Price Momentum
5-yr Relative TTM Oper Cash Flow-to-Price	7.14	Relative Value
Natural Logarithm of Market Capitalization	7.05	Liquidity, Risk & Size
Natural Logarithm of Closing Price	7.00	Liquidity, Risk & Size
Prior Fiscal Quarter Forecast Error	6.92	Earnings Momentum
1-Month Active Return	6.63	Price Momentum
Implied Volatility	6.01	Liquidity, Risk & Size
Street Consensus Rating	5.98	Earnings Momentum
Graham Number Fair Value Premium	5.81	Deep Value
36-Month Active Return with 1-Month Lag	5.59	Price Momentum
5-yr Relative TTM Free Cash Flow-to-Price	5.54	Relative Value
5-yr Relative Leading 12-Month Earnings Yield	5.52	Relative Value

Source: IHS Markit

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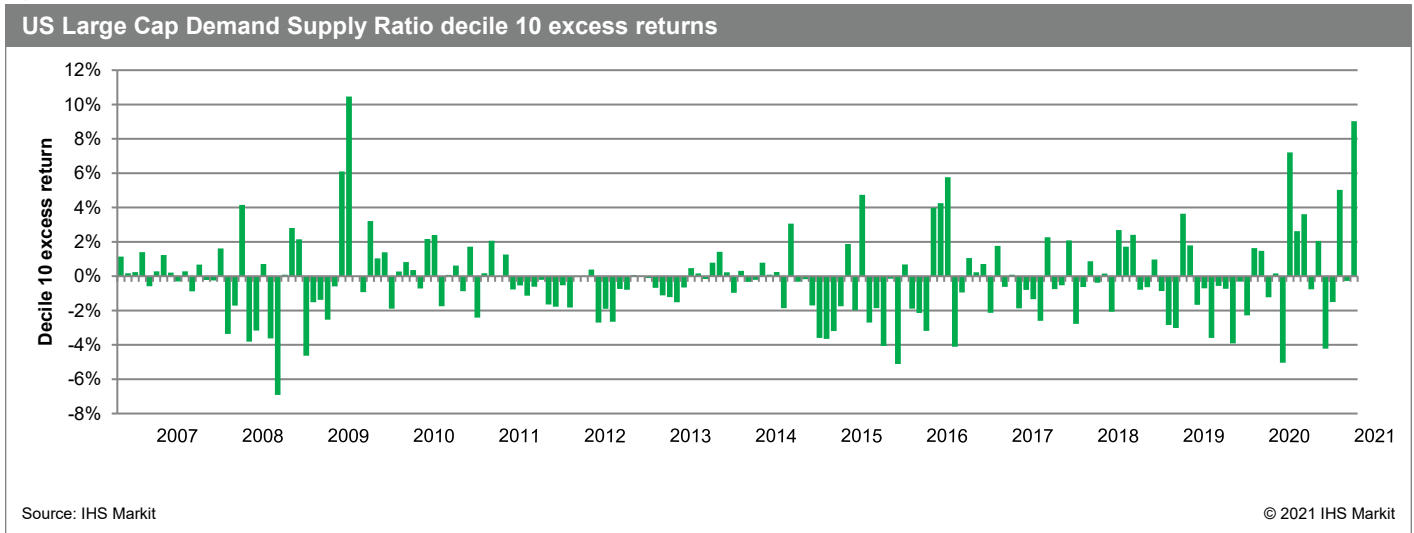
Table 3

US Large Cap bottom decile return spread factor performance, Jan 2021		
Factor	Decile spread (%)	Factor group
Demand Supply Ratio	-9.92	Short Sentiment
Active Utilization	-9.69	Short Sentiment
Utilization	-9.52	Short Sentiment
24-Month Residual Return Variance	-9.09	Price Momentum
60-Day Residual Risk	-9.01	Liquidity, Risk & Size
Short Interest Position	-9.00	Liquidity, Risk & Size
At the Money Call Option Implied Volatility	-8.87	Liquidity, Risk & Size
1-Month Realized Stock Return Volatility	-8.82	Liquidity, Risk & Size
Regression Error of 60-Month CAPM	-8.80	Liquidity, Risk & Size
At the Money Put Option Implied Volatility	-8.71	Liquidity, Risk & Size

Source: IHS Markit

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Figure 1



Source: IHS Markit

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US Small Cap

Small caps took the brunt of the short interest trade in US markets which was reflected in the lists of top (Table 4) and bottom (Table 5) performing factors in January. Average Monthly Trading Volume-to-Market Cap (29.07%) posted the highest spread, driven by feverish trading in GameStop, AMC Entertainment, Bed Bath & Beyond, and other highly shorted names which appeared among its D1 constituents. At the opposite extreme, as with large caps, Demand Supply Ratio (-22.36%) saw the largest drawdown in the Short Sentiment style group. However, in this case, D10 of this less liquid segment experienced its largest excess return in our factor history by more than twofold relative to the next highest observation in April 2020 (Figure 2).

Table 4

US Small Cap top decile return spread factor performance, Jan 2021		
Factor	Decile spread (%)	Factor group
Average Monthly Trading Volume-to-Market Cap	29.07	Liquidity, Risk & Size
Natural Logarithm of Closing Price	19.31	Liquidity, Risk & Size
60-Month Active Return with 12-Month Lag	17.42	Price Momentum
Altman Z Score	17.40	Liquidity, Risk & Size
Current Liabilities-to-Price	16.33	Liquidity, Risk & Size
1-Month Active Return	16.03	Price Momentum
60-Month Active Return with 1-Month Lag	15.82	Price Momentum
Natural Logarithm of Market Capitalization	12.66	Liquidity, Risk & Size
36-Month Active Return with 1-Month Lag	12.44	Price Momentum
Leading 12 Month Sales Yield	12.30	Deep Value
Time Weighted Sales Yield	12.16	Deep Value
Net Current Assets-to-Price	11.88	Deep Value
Cash-to-Price	11.74	Deep Value
TTM Sales-to-Price	11.14	Deep Value
5-day Industry Relative Return	10.83	Price Momentum

Source: IHS Markit

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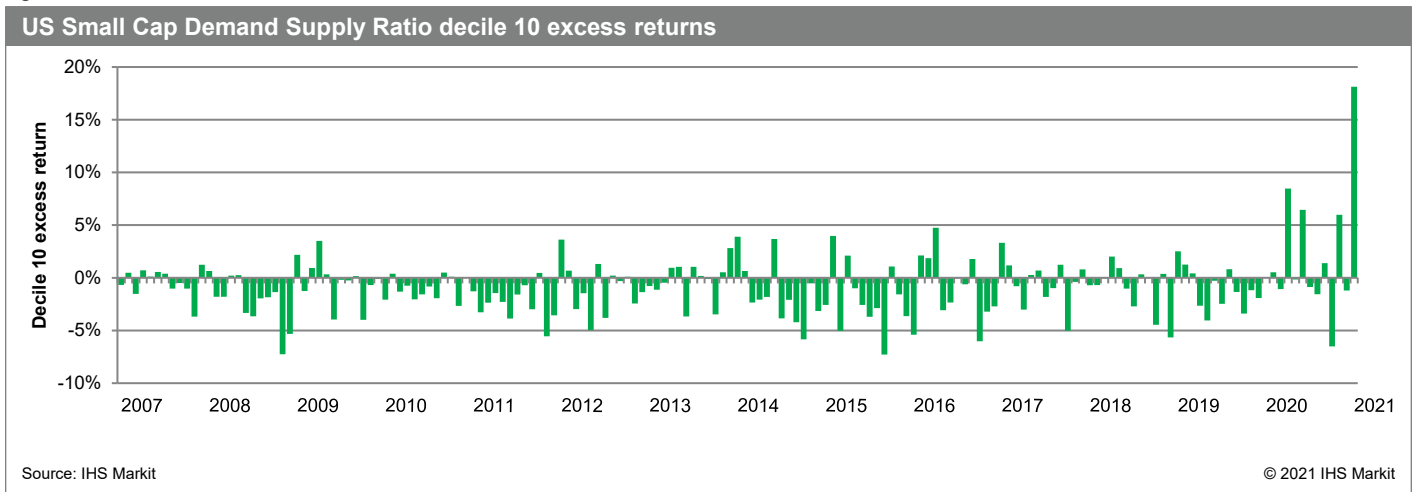
Table 5

US Small Cap bottom decile return spread factor performance, Jan 2021		
Factor	Decile spread (%)	Factor group
24-Month Residual Return Variance	-27.98	Price Momentum
Regression Error of 60-Month CAPM	-26.29	Liquidity, Risk & Size
Trading Turnover Ratio	-25.38	Liquidity, Risk & Size
Stock Return Volatility	-25.08	Liquidity, Risk & Size
Average Trading Volume in Preceding 6-month	-23.35	Price Momentum
Demand Supply Ratio	-22.36	Short Sentiment
60-Day Residual Risk	-22.04	Liquidity, Risk & Size
Product of Beta and Sigma	-21.95	Liquidity, Risk & Size
Active Utilization	-21.39	Short Sentiment
Utilization	-20.99	Short Sentiment

Source: IHS Markit

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Figure 2



Source: IHS Markit

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Europe

Manufacturing growth remained resilient at the start of 2021 in the eurozone, with the PMI coming in at 54.8 in January, down slightly from 55.2 in December, on marked gains in new orders. The best manufacturing growth was again seen in those countries with strong export bases, the Netherlands and Germany, while Spain was the only country to record a contraction. Stocks declined for the month for the first time since October, following suit to US markets which slumped in the final week on wild swings in a handful of stocks.

Time Weighted Earnings Revision (4.82%) was the top performing factor in Developed Europe markets in January (Table 6). This was in stark contrast to November performance (Figure 3) and represents a 31-percentage point swing in spread as investors put more faith in analyst outlook. Relative Value measures were also successful signals, as confirmed by factors such as 5-yr Relative Leading 12-Month Earnings Yield (4.66%). Factors which lagged for the month (Table 7) include Net Cash Equity (-3.80%), Oil Prices Sensitivity (-3.72%) and 3-yr Compound Annual ROIC Growth (-3.60%).

Table 6

Developed Europe top decile return spread factor performance, Jan 2021

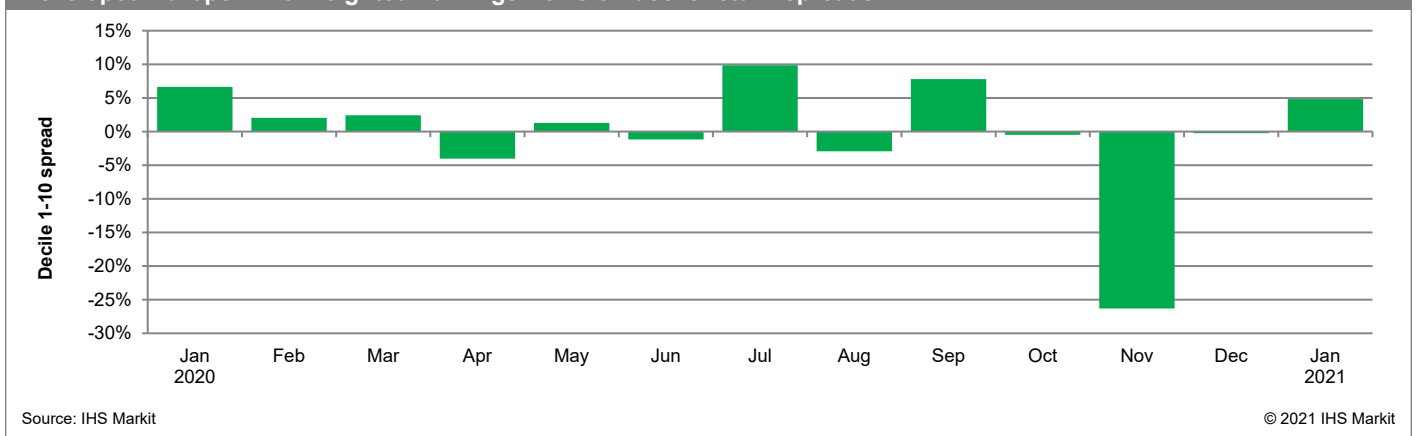
Factor	Decile spread (%)	Factor group
Time Weighted Earnings Revision	4.82	Earnings Momentum
5-yr Relative Leading 12-Month Earnings Yield	4.66	Relative Value
5-yr Relative TTM Cash Flow-to-Price	4.63	Relative Value
5-yr Relative TTM EBITDA-to-Price	4.37	Relative Value
Averaged Last 6-M EPS Revisions for FY1	4.29	Earnings Momentum
Skewness of 90-Day Stock Daily Returns	4.19	Price Momentum
Change in TTM Depreciation vs. CapEx	4.17	Earnings Quality
2-Month Active Return	3.59	Price Momentum
5-yr Relative TTM Earnings-to-Price	3.42	Relative Value
1-yr Change in Sales	3.35	Historical Growth
1-yr Change in Asset Turnover Ratio	3.32	Historical Growth
5-day Industry Relative Return	3.30	Price Momentum
Averaged Last 6-M EPS Revisions for FY2	3.11	Earnings Momentum
Street Revision Confidence	3.08	Earnings Momentum
5-yr Relative TTM Sales-to-Price	3.06	Relative Value

Source: IHS Markit

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Figure 3

Developed Europe Time Weighted Earnings Revision decile return spreads



Source: IHS Markit

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Table 7

Developed Europe bottom decile return spread factor performance, Jan 2021

Factor	Decile spread (%)	Factor group
Net Cash to Equity	-3.80	Liquidity, Risk & Size
Oil Prices Sensitivity	-3.72	Macro
3-yr Compound Annual ROIC Growth	-3.60	Historical Growth
Net Debt Ratio	-3.54	Management Quality
EMEA Sales Exposure	-3.23	Macro
Working Capital-to-Trailing 12-Month Sales	-3.10	Management Quality
Current Ratio	-3.09	Liquidity, Risk & Size
Industrial Production Sensitivity	-2.96	Macro
Cash & Equivalents-to-Current Liabilities	-2.95	Liquidity, Risk & Size
Quick Ratio	-2.76	Liquidity, Risk & Size

Source: IHS Markit

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Asia-Pacific

Manufacturing operating conditions slowed in the two largest Asian economies of China and Japan in the first month of 2021. The Japanese manufacturing sector returned to contraction territory, with the PMI slipping to 49.8 in January, down from 50.0 in December, as rising COVID-19 infections and further restrictions had a renewed impact on the economy. In China, the manufacturing sector improved at the slowest rate since last June, with the PMI falling to 51.5 in January, from 53.0 in December, on slower expansions in output and new orders, partly driven by the resurgence of the coronavirus globally. The pandemic and vaccination distribution issues also weighed on stock markets which finished the month relatively flat in both countries.

High trading volume and volatility were highly disfavored signals in Developed Pacific markets outside Japan in January, sending factors such as Average Trading Volume in Preceding 6-month (10.34%) and Regression Error of 60-Month CAPM (8.34%) to the monthly leaderboard (Table 8). Indeed, closer inspection of their decile return distributions (Figure 4) reveals a highly concentrated trade in the bottom decile of each factor, contributing to their strong spread performance. Conversely, factors which trailed for the month (Table 9) include a broad representation of styles such as Long-Term Growth Rate Estimates (-7.19%), Natural Logarithm of Market Capitalization (-6.91%), 3 Year Change in Gross Profit to Assets (-5.47%) and Slope of 66 Week Price Trend Line (-5.16%).

In Japan, valuation measures continued to dominate the list of top performing factors in January (Table 10), while Price Momentum measures remained bottom performers (Table 11). Time Weighted Cash Yield (5.53%) and 39-Week Return with 4-week Lag (-6.86%) once again sat near the respective extremes, once more with different patterns of trading (Figure 5). However, this month the former's signal content was more concentrated in overvalued names in the bottom tail of the distribution, while the monotonic return distribution across the latter's deciles suggests more systematic trading.

Table 8

Developed Pacific exJapan top decile return spread factor performance, Jan 2021		
Factor	Decile spread (%)	Factor group
Average Trading Volume in Preceding 6-month	10.34	Price Momentum
Trading Turnover Ratio	10.17	Liquidity, Risk & Size
Natural Logarithm of TTM Sales (USD)	9.18	Liquidity, Risk & Size
Natural Logarithm of Total Assets (USD)	8.95	Liquidity, Risk & Size
Regression Error of 60-Month CAPM	8.34	Liquidity, Risk & Size
60-Month Alpha	7.85	Price Momentum
Stock Return Volatility	7.73	Liquidity, Risk & Size
TTM Sales-to-Enterprise Value	7.29	Deep Value
Percent Change in Shares Outstanding	6.84	Earnings Quality
24-Month Residual Return Variance	6.83	Price Momentum
Unexpected Profitability	6.47	Management Quality
1-Month Realized Stock Return Volatility	6.42	Liquidity, Risk & Size
Cash Flow Return on Invested Capital	6.33	Management Quality
Distress Measure	6.13	Liquidity, Risk & Size
Current Liabilities-to-Price	6.06	Liquidity, Risk & Size

Source: IHS Markit

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Figure 4

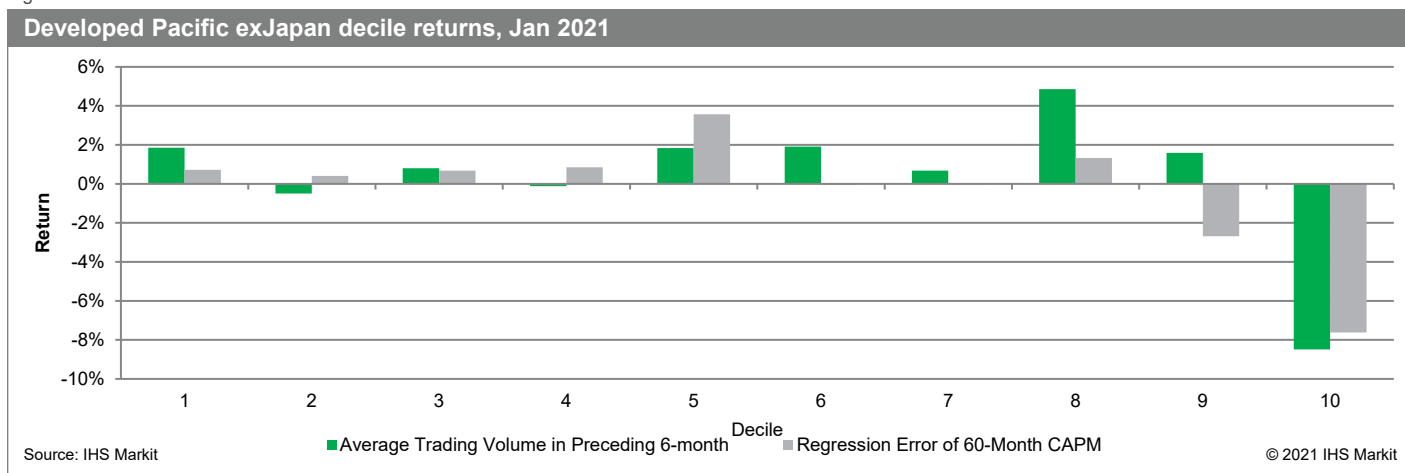


Table 9

Developed Pacific exJapan bottom decile return spread factor performance, Jan 2021		
Factor	Decile spread (%)	Factor group
Long-Term Growth Rate Estimates	-7.19	Earnings Momentum
Natural Logarithm of Market Capitalization (USD)	-6.91	Liquidity, Risk & Size
1-yr Change in Total Assets	-6.77	Historical Growth
3 Year Change in Gross Profit to Assets	-5.47	Management Quality
Slope of 66 Week Price Trend Line	-5.16	Price Momentum
Days to Cover	-5.00	Short Sentiment
12 Month Change in Total Debt	-4.95	Liquidity, Risk & Size
Industry-adjusted Doubtful Account Receivables	-4.85	Earnings Quality
Year-over-year Change in Leverage	-4.84	Liquidity, Risk & Size
Acquisition Multiple	-4.73	Deep Value

Source: IHS Markit

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Table 10

Japan Standard Cap top decile return spread factor performance, Jan 2021		
Factor	Decile spread (%)	Factor group
Price Above Last 260-day Lowest Trading Price	6.90	Price Momentum
Time Weighted Cash Yield	5.53	Deep Value
36-Month Active Return with 1-Month Lag	5.47	Price Momentum
Leading 12 Month Book Yield	5.39	Deep Value
Current Liabilities-to-Price	5.35	Liquidity, Risk & Size
Time Weighted Book Yield	5.28	Deep Value
5-yr Relative TTM Sales-to-Price	4.76	Relative Value
60-Month Alpha	4.50	Price Momentum
5-yr Relative TTM Dividend Yield	4.47	Relative Value
Industry Relative TTM Dividend Yield	4.29	Relative Value
Cash-to-Price	4.25	Deep Value
TTM Dividend Yield	4.10	Deep Value
5-yr Relative TTM Oper Cash Flow-to-Price	4.10	Relative Value
5-yr Relative Book-to-Market	3.99	Relative Value
Working Capital to Inventory	3.95	Management Quality

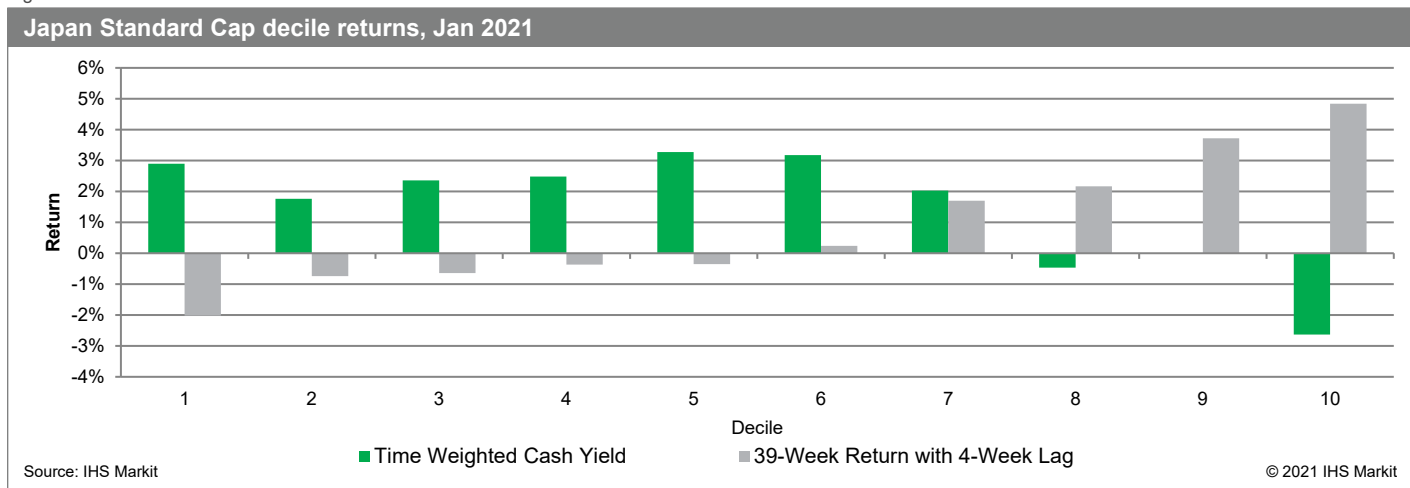
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Table 11

Japan Standard Cap bottom decile return spread factor performance, Jan 2021		
Factor	Decile spread (%)	Factor group
9-Month Active Return with 1-Month Lag	-6.95	Price Momentum
39-Week Return with 4-week Lag	-6.86	Price Momentum
30-75 Week Stock Price Ratio	-6.56	Price Momentum
50-200 Day Stock Price Ratio	-6.51	Price Momentum
12-Month Active Return with 1-month Lag	-6.50	Price Momentum
1-Year Price Momentum Indicator	-6.48	Price Momentum
Industry-adjusted 12-month Relative Price Strength	-6.39	Price Momentum
Fama-French Momentum	-6.13	Price Momentum
52-Week High	-6.07	Price Momentum
15/36 Week Stock Price Ratio	-6.02	Price Momentum

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Figure 5



Emerging Markets

We wrap up with a review of top (Table 12) and bottom (Table 13) performing factors in emerging markets in January. High quality signals were prominent on the list of top performers, with Profitability Ratio (4.57%) leading the way. Since the start of 2020, this has been a mostly positive signal (Figure 6), with outperformance in all but four months. On the other hand, Book-to-Market (-4.84%) was the weakest performing factor.

Table 12

Emerging Markets top quintile return spread factor performance, Jan 2021		
Factor	Decile spread (%)	Factor group
1-yr Change in Sales	5.02	Historical Growth
Profitability Ratio	4.57	Management Quality
Fama-French Momentum	4.55	Price Momentum
Cash Earnings Return On Equity	4.48	Management Quality
TTM Gross Profit to Assets	4.34	Management Quality
Pretax Return on Net Operating Assets	4.29	Management Quality
3-yr Compound Annual Sales Growth	4.12	Historical Growth
30-75 Week Stock Price Ratio	4.11	Price Momentum
Cash Flow Return on Invested Capital	4.07	Management Quality
Return on Invested Capital	4.02	Management Quality
Yearly TTM Total Sales Growth Rate	3.92	Historical Growth
EBITDA-to-Debt	3.90	Liquidity, Risk & Size
Forward Return on Equity	3.88	Management Quality
Return on Assets	3.79	Management Quality
Debt to Market Cap	3.78	Liquidity, Risk & Size

Source: IHS Markit

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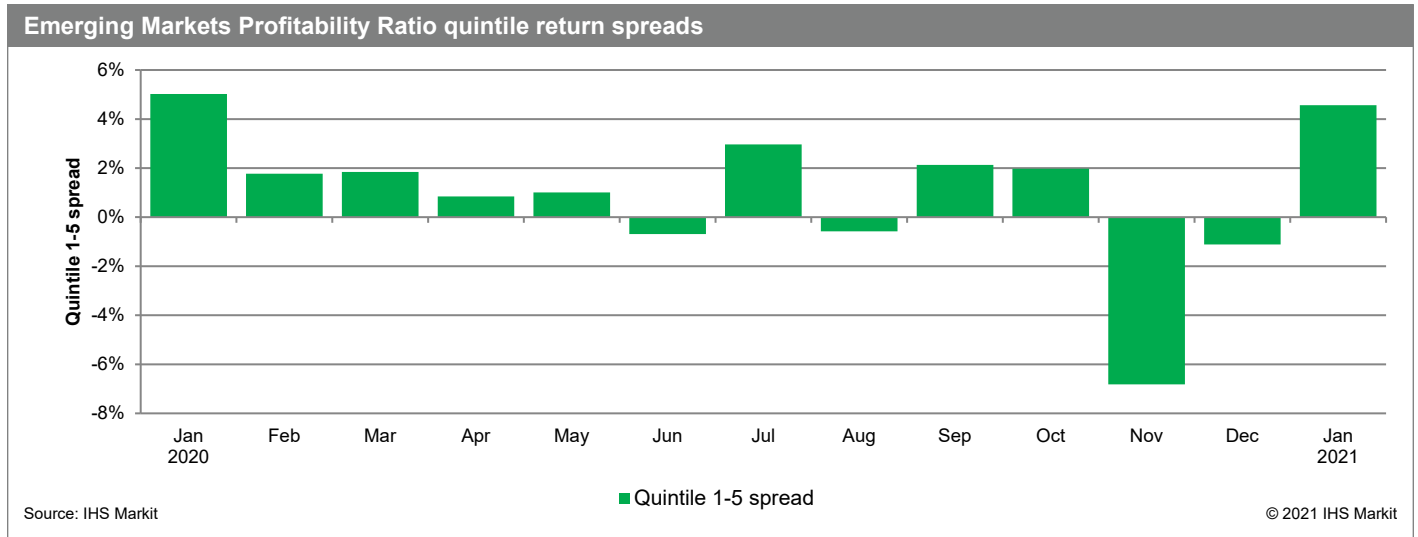
Table 13

Emerging Markets bottom quintile return spread factor performance, Jan 2021		
Factor	Decile spread (%)	Factor group
Book-to-Market	-4.84	Deep Value
Acquisition Multiple	-4.77	Deep Value
Altman Z Score	-4.52	Liquidity, Risk & Size
Natural Logarithm of Closing Price (USD)	-4.45	Liquidity, Risk & Size
1-yr Change in Total Assets	-4.33	Historical Growth
Leading 12 Month Book Yield	-3.94	Deep Value
Long-term Debt-to-Cash Flow	-3.88	Liquidity, Risk & Size
Credit Risk Premium Sensitivity	-3.87	Macro
Time Weighted Book Yield	-3.66	Deep Value
Market Leverage	-3.64	Liquidity, Risk & Size

Source: IHS Markit

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Figure 6



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